Joint Stock Company Bank of Georgia

(a joint stock company incorporated in Georgia)

Application for a Block Listing of up to 43,308,125 Shares in the form of Global Depositary Receipts

This Prospectus relates to an application by Joint Stock Company Bank of Georgia ("**Bank of Georgia**"), a joint stock company incorporated in the country of Georgia (located in the Caucasus) ("**Georgia**") for a block listing of up to 43,308,125 ordinary shares, each with a nominal value of GEL 1.00 per share (the "**Shares**"), in the form of global depositary receipts ("**GDRs**"), each GDR representing one Share of Bank of Georgia. The Shares are listed on the Georgian Stock Exchange (the "**GSE**") under the symbol "GEB". This Prospectus has been prepared in accordance with the Prospectus Rules (the "**Prospectus Rules**") of the UK Financial Services Authority ("**UK FSA**") made under section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**") and has been filed with and approved by the UK FSA pursuant to section 87A of the FSMA. This Prospectus will be made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

In November 2006, Bank of Georgia submitted applications to: (i) the UK FSA in its capacity as competent authority under the FSMA for a block listing of up to 25,335,619 GDRs to be admitted to the official list of the UK Listing Authority (the "**Official List**"); and (ii) the London Stock Exchange plc (the "**LSE**") for up to 25,335,619 GDRs to be admitted to trading under the symbol "BGEO" on the LSE's EEA Regulated Market (as defined in the Markets in Financial Instruments Directive 2004/39/EC) (the "**Regulated Market**"). Such applications were granted and unconditional trading in the GDRs that were issued pursuant to the offering of 7,721,919 Shares in the form of GDRs (the "**IPO**") began on 29 November 2006. The IPO consisted of an international offering of GDRs outside the United States to certain persons in offshore transactions in reliance on Regulation S (the "**Regulation S GDRs**") of the United States Securities Act of 1933, as amended (the "**Securities Act**"). Concurrently with the IPO, Bank of Georgia and The Bank of New York Mellon, as depositary (the "**Depositary**"), established a depositary receipt facility for the issuance of global depositary receipts pursuant to Rule 144A of the Securities Act ("**Rule 144A GDRs**"), and although no Rule 144A GDRs were issued pursuant to the IPO, Rule 144A GDRs have been offered by Bank of Georgia from time to time since the IPO. The Rule 144A GDRs are also eligible for trading on the PORTAL Market of the NASDAQ Stock Market, Inc. ("**PORTAL**").

The Regulation S GDRs are evidenced by a Master Regulation S Global Depositary Receipt (the "**Master Regulation S GDR**") registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London branch, as common depositary for Euroclear Bank N.V./S.A. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Rule 144A GDRs are evidenced by a Master Rule 144A Global Depositary Receipt (the "**Master Rule 144A GDR**" and, together with the Master Regulation S GDR, the "**Master GDRs**") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**") in New York. Except as described herein, beneficial interests in the existing Master GDRs are shown on, and transfers thereof are effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg, and their direct and indirect participants.

In connection with this Prospectus, applications have now been submitted: (i) to the UK FSA in its capacity as competent authority under the FSMA, for a block listing of up to 43,308,125 GDRs, consisting of the 25,335,619 previously listed GDRs (the "**Existing GDRs**") and up to 17,968,506 additional GDRs (the "**Additional GDRs**") to be issued from time to time against the deposit of Shares of Bank of Georgia with the Depositary, to be admitted to the Official List; and (ii) to the LSE for the Additional GDRs to be admitted to trading under the symbol "BGEO" on the Regulated Market. Notwithstanding that application for such a block listing has been made, no GDRs will be offered for subscription or sale pursuant to this Prospectus. Bank of Georgia has chosen to increase its block listing at this time in order to permit Shares which have been issued since the IPO and any new Shares to be issued by the Bank in the future, to be converted into GDRs, as well as for the purposes of converting certain existing convertible subordinated loans into GDRs pursuant to the terms of such lending arrangements.

References in this Prospectus to the GDRs shall, where the context allows, be deemed to include references to any Existing GDRs (including both Regulation S GDRs and Rule 144A GDRs) and to any Additional GDRs (including both Regulation S GDRs and Rule 144A GDRs) that may be issued from time to time in the future.

INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. See "Risk Factors" beginning on page 7. The GDRs are of a specialist nature and should only be bought and traded by sophisticated investors who fully appreciate the significance of the risks involved.

The Existing GDRs and any Additional GDRs to be issued from time to time in the future have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The date of this Prospectus is 19 August 2009

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus, including the financial information included herein, comprises a prospectus given in compliance with the Prospectus Rules of the UK Listing Authority (the "**UKLA**") made under section 73A of the FSMA, for the purpose of giving information with regard to Bank of Georgia and the GDRs in connection with the block listing application for admission of up to 43,308,125 GDRs, consisting of the 25,335,619 previously listed GDRs and up to 17,968,506 Additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to the Official List and to trading on the Regulated Market. Notwithstanding that Bank of Georgia has applied for a block listing of up to 43,308,125 GDRs, this Prospectus does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for the GDRs in any jurisdiction. The distribution of this Prospectus in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. See "Terms and Conditions of the Global Depositary Receipts" and "Transfer Restrictions" elsewhere in this Prospectus. Any failure to comply with these restrictions may constitute a violation of the securities laws or the laws of any such jurisdiction.

This Prospectus is based on information provided by Bank of Georgia and other sources, believed by Bank of Georgia to be reliable. The contents of Bank of Georgia's website do not form any part of this Prospectus, but are for reference purposes only.

Bank of Georgia accepts responsibility for the information contained in this Prospectus and, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of Bank of Georgia's knowledge, in accordance with the facts and contains no omission likely to affect its import.

In making an investment decision regarding the GDRs, investors must rely on their own examination of Bank of Georgia and its subsidiaries (the "**Bank**"). Bank of Georgia has not authorised any other person to provide different information. Investors should not rely on any different or inconsistent information provided by any third party. Investors should assume that the information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only. The business, financial condition, results of operations and other information relating to the Bank set forth in this Prospectus may have changed since that date.

Investors should not consider any information in this Prospectus to be investment, legal or tax advice and should consult their own counsel, accountants and other advisors for legal, tax, business, financial and related advice regarding any purchase of GDRs. Bank of Georgia is not making any representation to any offeree or purchaser of GDRs regarding the legality of an investment in GDRs by such offeree or purchaser under appropriate investment or similar laws.

Bank of Georgia obtained the market data used in this Prospectus from internal surveys, industry sources and currently available information. The main sources for market information used in this Prospectus are the National Bank of Georgia (the "**NBG**") and the Financial Supervisory Agency of Georgia (the "**FSA**"). Bank of Georgia obtained Georgian macroeconomic data and foreign exchange data principally from the Department of Statistics of Georgia (the "**Department of Statistics**") and the Government of Georgia. Information regarding the size of the banking market in Ukraine and Belarus has been obtained from the National Bank of Ukraine ("**NBU**") and the National Bank of Belarus. Market information on the price of Bank of Georgia's Shares was obtained from the GSE. Bank of Georgia accepts responsibility for having correctly reproduced information obtained from industry publications or public sources, and, so far as Bank of Georgia is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, investors should keep in mind that Bank of Georgia has not independently verified information it has obtained from industry and government sources. Certain market share information and other statements in this Prospectus and statements regarding Bank of Georgia's position relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect Bank of Georgia's best estimates based upon information obtained from trade and business organisations and associations and other contacts within relevant industries. This information from Bank of Georgia's internal estimates and surveys has not been verified by any independent sources.

THE GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Bank of Georgia is a joint stock company incorporated in Georgia and governed by the laws of Georgia. A substantial portion of the assets of the Bank are located in Georgia and most of the members of the Bank's management ("**Management**") and executive officers reside or are located in Georgia. As a result, it may not be possible for investors to effect service of process upon Bank of Georgia or any members of its Management and/or its executive officers. In addition, investors may not be able to bring an original action in Georgia based upon English law, or obtain, or enforce a foreign court judgment based upon English law in Georgia.

Subject to the satisfaction of certain conditions, foreign court judgments (including judgments of the courts of England and Wales) are recognised and enforceable in Georgia under Articles 68 and 70 of the Law of Georgia on International Private Law. In general, foreign court judgments are recognised and enforceable in Georgia unless: (a) the matter is within the exclusive competence of Georgia; (b) there has been a violation of procedure relating to the service of process or other procedural irregularities under the law of the country of the court which rendered the judgment; (c) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court judgment and the relevant court judgement has been recognised in Georgia; (d) the court rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation; (e) the country whose court has rendered the judgment does not recognise judgments of Georgian courts; (f) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or (g) the judgment of the foreign court contradicts fundamental legal principles of Georgia. However, no treaty exists between the United Kingdom and Georgia or the United States and Georgia for the reciprocal enforcement of foreign court judgments and Georgian courts have limited experience enforcing foreign court judgments. As a result, investors may not be able to, or may experience significant delays in trying to, enforce judgments obtained in the English courts or any other foreign courts against Bank of Georgia, its Management and/or its executive directors.

Holders of GDRs may enforce their rights by arbitration. Georgia is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("**New York Convention**"). Therefore, an arbitral award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by the Georgian legislation. However, it may be difficult to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions and certain procedural ambiguities, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus, as well as written and oral statements that the Bank, its Management and/or its executive officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development, business strategy and the trends the Bank anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information. Forward-looking statements appear in various sections of this Prospectus, including, without limitation, under the headings "Summary," "Risk Factors," "Description of Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Funding" and "Risk Management".

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors", as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Accordingly, investors should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Bank operates. The forward-looking statements in this Prospectus speak only as of the date of this Prospectus. Accordingly, Bank of Georgia does not undertake any obligation to update or revise any of them (whether as a result of new information, future events or otherwise) other than as required by applicable laws, the Listing Rules or the Prospectus Rules of the UKLA. Bank of Georgia does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to Bank of Georgia or persons acting on Bank of Georgia's behalf.

PRESENTATION OF FINANCIAL INFORMATION

The financial information of the Bank set forth herein has, unless otherwise indicated, been derived from the Bank's audited consolidated balance sheets and consolidated statements of operations, cash flows and changes in equity as of and for the years ended 31 December 2006, 2007 and 2008 ("**Financial Statements**") set forth elsewhere in this Prospectus, beginning on page F-1. The Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**"), formerly referred to as International Accounting Standards ("**IAS**"). The Financial Statements as of and for the years ended 31 December 2006, 2007 and 2008 were audited by the Bank's independent auditors, Ernst & Young Audit LLC ("**E&Y**"), in accordance with International Standards on Auditing ("**ISA**").

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the precise arithmetic sum of the figures that precede them.

CURRENCY AND EXCHANGE RATES

In this Prospectus, all references to "Lari" and "GEL" are to the lawful currency of Georgia; all references to "dollars," "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America; all references to "Euros" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references to "pounds sterling", "£" or "GBP" are to the lawful currency of the United Kingdom; all references to "hryvnia" and "UAH" are to the lawful currency of Ukraine; all references to "Belarus roubles" or "BYR" are to the lawful currency of the Republic of Belarus; all references to "MDL" are to the lawful currency of the Republic of Moldova; all references to "AZN" are to the lawful currency of the Republic of Azerbaijan; and all references to "INS" are to the lawful currency of Israel.

The following table sets forth, for the periods indicated, the average and period-end official exchange rates set by the NBG, in each case for the purchase of Lari, all expressed in Lari per U.S. dollar.

	High	**Low**	**Average**	**Period End**
	(Lari per U.S. dollar)			
2009 (up to and including 31 July 2009)	1.70	1.64	1.66	1.68
2008	1.67	1.40	1.49	1.67
2007	1.72	1.59	1.67	1.59
2006	1.83	1.71	1.78	1.71
2005	1.84	1.78	1.81	1.79
2004	2.14	1.70	1.91	1.83

Source: NBG.

The NBG's Lari per U.S. dollar exchange rate as reported on 31 July 2009 was GEL 1.68. See "Risk Factors—Risks Relating to the Bank's Business—Foreign Exchange and Currency Risk".

Solely for the convenience of the reader, this Prospectus contains translations of certain Lari amounts into U.S. dollars at exchange rates established by the NBG and effective as of the date of the relevant financial information. The foregoing exchange rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the Lari amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

AVAILABLE INFORMATION

Bank of Georgia will furnish, upon the request of any holder or beneficial owner of any Rule 144A GDRs, the information specified in paragraph (d)(4) of Rule 144A to that holder, beneficial owner and/or to a prospective purchaser of Rule 144A GDRs (where such prospective purchaser has been designated by a holder or beneficial owner of Rule 144A GDRs) unless, at the time of the relevant request, Bank of Georgia is subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or Bank of Georgia is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and will therefore furnish the SEC with certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

DOCUMENTS ON DISPLAY

Copies of this Prospectus and the Charter of Bank of Georgia (the "**Charter**") are available for inspection on Bank of Georgia's website (www.bog.ge/ir).

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SUMMARY

This summary should be read as an introduction to the Prospectus. This Prospectus has been prepared solely in respect of the admission of GDRs to the Official List, and no GDRs are being offered for subscription or sale pursuant to this Prospectus. Any decision to invest in the GDRs should be based on the consideration of this Prospectus as a whole by the investor and not just this summary. Under the Prospectus Directive (Directive 2003/71/EEC) in each member state of the European Economic Area civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor, under the national legislation of the European Economic Area States, might have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

General

Bank of Georgia was established as a universal commercial bank on 15 December 1994 under the laws of Georgia for an unlimited period of time. The registered office of Bank of Georgia is 3 Pushkin Street, Tbilisi, Georgia, 0105 and its telephone number is + 995 32 444 105.

Bank of Georgia is the largest bank in Georgia based on total equity (with a 39.0% market share), total assets (with a 33.6% market share), total loans (with a 31.5% market share) and total deposits (with a 27.5% market share) as of 30 June 2009, each ranking and market share according to information published by the NBG/FSA based on standalone financial information filed with the FSA by Georgian banks. These market shares compare to a 40.0% market share by total equity, a 32.9% market share by total assets, a 32.9% market share by total loans and a 28.8% market share by total deposits as of 31 December 2008 and a 34.1% market share by total equity, a 35.2% market share by total assets, a 32.7% market share by total loans and a 31.4% market share by total deposits as of 31 December 2007. The Bank is the successor to state-owned Binsotsbank, which was privatised in 1994. The Bank's headquarters are located in Tbilisi.

The Bank is a leader in the Georgian retail banking market, serving approximately 695,000 retail clients as of 30 June 2009. The Bank's retail banking products and services currently include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans and overdrafts), deposit accounts (including current, term and demand deposits), credit cards and other bank card products and services, ATM services, Internet, telephone and SMS banking, utilities and other recurring payments, money transfers and remittances, standing orders, direct debit services for wages and other monetary entitlements and other retail banking services. As of 30 June 2009, Bank of Georgia had one of the largest distribution network in Georgia, with 140 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 394 ATMs, a universal remote banking platform and a state-of-the-art call centre.

The Bank is also a leader in the Georgian corporate banking market, serving approximately 80,000 legal entities as of 30 June 2009. The Bank's corporate banking products and services consist primarily of current and deposit accounts, account administration and cash management services, payroll services and corporate lending, as well as a range of trade finance operations, foreign exchange transactions and leasing services. The Bank provides loans and other credit-related products in Lari and foreign currencies, principally U.S. dollars, to its corporate clients, including overdraft facilities, revolving lines of credit and bank guarantees. The Bank's corporate clients include large corporates, as well as small and medium-size companies and governmental entities.

The Bank, through its wholly-owned insurance subsidiary, JSC Insurance Company Aldagi BCI ("**Aldagi BCI**"), is a leading insurance provider in Georgia and had approximately a 19.6%

market share based on gross written premiums as of 31 March 2009, according to information published by the NBG/FSA.

The Bank provides brokerage and investment banking services in Georgia, Ukraine and Belarus through its subsidiaries, JSC Galt & Taggart Securities ("**GTS**"), JSC Galt and Taggart Securities Ukraine LLC ("**GTSU**") and Galt & Taggart Securities Belarus LLC ("**GTSB**").

The Bank's asset management business consists of JSC Galt & Taggart Asset Management ("**GTAM**"), which provides asset management services to retail and institutional clients, as well as JSC Liberty Consumer ("**Liberty Consumer**"), a Georgia-focused investment company managed by GTAM, in which the Bank holds a 65% stake.

In addition to its banking operations in Georgia, the Bank provides retail banking and corporate banking services in Ukraine and Belarus (together with Georgia, the "**Principal Markets**"), through its subsidiaries JSC BG Bank ("**BG Bank**") and JSC Belarusky Narodny Bank ("**BNB**"), respectively.

As of 31 December 2008, the Bank's total assets were GEL 3,258.9 million (U.S.$1,955.0 million), the Bank's total equity was GEL 718.8 million (U.S.$431.2 million) and the Bank's net income for the year ending 31 December 2008 was GEL 0.17 million (U.S.$0.1 million).

Bank of Georgia was awarded the *Best Bank In Georgia Award for Excellence* in each of 2005, 2006, 2007, 2008 and 2009 by Euromoney, *Best Bank in Georgia* for each of 2006, 2007 and 2008 by The Banker and was named the *Best Bank in Georgia*, *Best Trade Finance Bank in Georgia* and *Best Foreign Exchange Provider* in each of 2007, 2008 and 2009 and the *Best Bank in Georgia* in 2008 and 2009 by Global Finance Magazine.

Significant Acquisitions

In October 2007, Bank of Georgia acquired an additional 88.85% equity interest in BG Bank (formerly JSC Universal Bank of Development & Partnership, a mid-sized bank in Ukraine), resulting in a total equity interest of 98.77%. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares, each with a nominal value of UAH 1.00 per share. Following the capital increase, Bank of Georgia's ownership interest in BG Bank increased to 99.35%. As of 30 June 2009, BG Bank, which is headquartered in Kyiv, served 16,563 retail clients and 3,236 corporate clients, through its 18 branches and 33 ATMs that are located in various *oblasts* (regions) of Ukraine.

In July 2008, Bank of Georgia acquired a 70% equity interest in BNB (indirectly through a Belarus entity) and retained an option to acquire the remaining 30% equity interest in BNB within three years. As of 30 June 2009, BNB, which is headquartered in Minsk, served 2,467 retail clients and 947 corporate clients, through its four service centres and eight ATMs.

Recent Sources of Funding

Significant sources of funding include the following:

- In May 2009, the Bank signed an International Swaps and Derivatives Association ("**ISDA**") Master Agreement with the International Finance Corporation ("**IFC**"). The ISDA Master Agreement enables the Bank to engage, for the first time, in interest rate swap transactions that allow it to hedge U.S. dollar interest rate risk on its outstanding long-term borrowings. As a result, floating rates for the following facilities were swapped into fixed rates: Hillside Apex Fund 2005 subordinated loan in the amount of U.S.$5.0 million, Nederlandse Financierings-Maastchappij voor Ontwikkelingslanden N.V.

("**FMO**") 2006 senior loan in the amount of U.S.$12.5 million, Merrill Lynch 2007 subordinated loan in the amount of U.S.$35.0 million, European Bank for Reconstruction and Development ("**EBRD**") 2008 senior loan in the amount of U.S.$50.0 million, IFC 2008 senior loan in the amount of U.S.$50.0 million, EBRD 2008 subordinated loan in the amount of U.S.$24.0 million, and IFC 2008 subordinated loan in the amount of U.S.$24.0 million.

- In July 2009, Bank of Georgia and EBRD signed an amended and restated participation agreement, pursuant to which EBRD has made available an additional U.S.$20 million co-financing for the Bank's corporate clients which may be used for term lending for a period of up to eight years as well as revolving credit lines for working capital needs. The original participation agreement was signed in June 2005 and provided financing in an aggregate amount of U.S.$5.0 million.

Recent Developments

In December 2008, Bank of Georgia completed the reorganisation of its retail banking business in Georgia as part of its strategic cost control measures in response to the recent economic downturn. Principal changes in the retail banking business included the closure of point-of-service ("**POS**") lending and mobile sales units, the merger and downsizing of the general consumer and mortgage lending units and the reduction of micro finance activities. The reorganisation has led to greater operational efficiency and cost-savings.

From 1 January 2009 up until the date of this Prospectus, the Bank drew down the entire U.S.$200 million from the EBRD and IFC financing package agreed in December 2008 and redeemed U.S.$260.1 million of wholesale debt financing. Repayments included the repayment of the U.S.$65 million loan facility and U.S.$43.5 million syndicated loan granted in December 2007 and August 2007, respectively, as well as the settlement of an aggregate amount of U.S.$140 million of loan passthrough notes issued in June and July of 2008. During this period, the Bank witnessed a decline in its deposit base, although its capital adequacy and liquidity position did improve. The Bank also continues to provision conservatively in response to the general economic slowdown in the Principal Markets.

Competitive Strengths

Management believes that the Bank has the following competitive strengths:

- Leading market position;
- Diversified product offering and wide distribution network;
- Strong brand concept and identity;
- Strong liquidity and regulatory capital; and
- Experienced management.

Strategy

The key elements of the Bank's business strategy are:

- Maintaining its leading position in the Georgian banking market;
- Managing the impact of the armed conflict between Georgia and Russia that broke out in August 2008 (the "**Conflict**") and the global economic downturn;
- Conservative liquidity management;
- Conservative risk management policies and procedures; and
- Integrated approach across the Bank's businesses and geographies.

Risk Factors

The Bank's results of operations, financial condition, business and prospects could be materially affected by:

Risks Relating to Investments in Emerging Market Risks

Risks Relating to the Bank's Business

- current economic and maarket conditions;
- dependence on banking and other licences;
- geographical diversification;
- liquidity risks;
- exposure to credit risk of corporate and retail clients;
- allowance for impairment loss risk;
- enforcement of security;
- foreign exchange and currency risk;
- interest rate risk;
- cost-control measures and planned disposals;
- competition;
- technological risks;
- restrictive covenants;
- dependence on key management and qualified personnel;

Risks Relating to Georgia and the Other Principal Markets

- political risk;
- regional tensions;
- economic instability;
- dependence on donor pledges;
- currency regulation;
- developing legal systems;
- corporate governance;
- 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;

Risks Relating to the GDRs

- voting rights;
- prior approval of acquisition of significant interests;
- reporting obligations of holders of Shares and GDRs;
- future issuances or sales of Shares or GDRs;
- the failure of GDR holders to comply with requests for information; and
- Georgian taxes.

SUMMARY OF THE GDRS

The Issuer	Joint Stock Company Bank of Georgia.
Depositary	The Bank of New York Mellon.
The Shares	The Bank's authorised share capital is GEL 43,308,125. The Bank's issued and fully paid share capital is GEL 31,294,603, comprised of 31,294,603 ordinary registered Shares in book-entry form with a nominal value of GEL 1.00 each. See "Description of Share Capital and Certain Requirements of Georgian Law".
The GDRs	Each GDR represents one Share issued pursuant to the deposit agreement dated 24 November 2006 between the Bank and the Depositary, supplemented by agreements dated 21 December 2007, 12 February 2008 and 18 March 2009 (collectively, the "**Deposit Agreement**"). GDRs are evidenced by the Master GDRs and are registered in the name of a common nominee for Euroclear, Clearstream and DTC, as appropriate. Separate certificates in definitive registered form will be issued in respect of GDRs in certain circumstances. For more information, see "Summary of Provisions Relating to the GDRs while in Master Form".
Transfer Restrictions	The GDRs are subject to certain restrictions on transfer. See "Transfer Restrictions".
Dividends	Over the past four years, Bank of Georgia has not declared or paid any dividends and has instead reinvested net income into its business areas. However, in the future Bank of Georgia may choose to declare and pay dividends. See "Dividend Policy".
Taxation	Purchasing and holding GDRs may subject holders to certain UK and Georgian tax consequences. See "Taxation".
Listing and Trading	In November 2006, applications were successfully made to: (i) the UK FSA in its capacity as competent authority under the FSMA for a block listing of up to 25,335,619 GDRs to be admitted to the Official List; and (ii) the LSE for the GDRs to be admitted, pursuant to a block listing application, to trading on the Regulated Market. In connection with this Prospectus, applications have been submitted to: (i) the UK FSA in its capacity as competent authority under the FSMA for a block listing of up to 43,308,125 GDRs, consisting of the 25,335,619 GDRs admitted to the Official List in 2006 and up to 17,968,506 Additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List of the UKLA; and (ii) the LSE for the

GDRs to be admitted, pursuant to a block listing application, to trading on the Regulated Market.

Voting	Subject to any applicable provisions of Georgian law, the Charter and the Deposit Agreement, the Depositary will exercise, at any meeting of holders of Shares of which the Depositary receives timely notice, the voting rights pertaining to the Shares as instructed by holders of the GDRs. See "Terms and Conditions of the Global Depositary Receipts—Voting Rights".
Management	The Supervisory Board of the Bank is comprised of following members: Nicholas Enukidze, Ian Hague, Jyrki Talvitie, Allan Hirst, Kaha Kiknavelidze, Irakli Gilauri and David Morrison. The Management Board of the Bank is comprised of the following members: Irakli Gilauri, Irakli Burdiladze, Ramaz Kukuladze, Sulkhan Gvalia, George Chiladze, Avto Namicheishvili, Murtaz Kikoria and Mikheil Gomarteli.
Documents on Display............................	Copies of this Prospectus and the Charter are available on the Bank's website (www.bog.ge/ir).
General Information	The security numbers and trading symbol for the GDRs are as follows:

Regulation S GDRs	ISIN: US0622692046 Common Code: 027418325 CUSIP Number: 062269204 SEDOL: B1GJ6T8
Rule 144A GDRs	ISIN: US0622691055 Common Code: 027417914 CUSIP Number: 062269105 SEDOL: B1GJ6N2
LSE Trading Symbol	BGEO

RISK FACTORS

Any investment in the GDRs is subject to a number of risks. Before making any investment decision, investors should carefully consider all the information contained in this Prospectus, including in particular, the risk factors described below. Some of the following factors relate principally to the Bank's business and the industry in which it operates. Other factors relate to Georgia and an investment in GDRs. The risks and uncertainties described below are the material risks currently known to the Bank as of the date of this Prospectus. Additional risks and uncertainties not currently known to the Bank, or that the Bank currently deems immaterial, may also have a material adverse effect on the Bank's business, financial condition, results of operations or prospects. If this occurs, the price of the GDRs may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in GDRs is suitable for them in light of their personal circumstances.

Risks Relating to Investments in Emerging Market Risks

Emerging markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. In addition to its principal banking operations in Georgia, the Bank has business operations and assets in Ukraine and Belarus. Emerging economies, such as the Georgian, Ukrainian and Belarus economies, are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world and the information set out in this Prospectus may become outdated relatively quickly.

Risks Relating to the Bank's Business

Current Economic and Market Conditions

The global economy has entered the most severe downturn for 80 years, with the financial services industry facing extraordinary turbulence. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions under considerable pressure. This is leading governments and central banks to undertake unprecedented intervention designed to stabilise the global and domestic financial systems, to stimulate new lending and to support systemically important institutions at risk of failing. Many developed economies have entered recession and growth has slowed in many emerging economies, with serious adverse consequences for asset values, employment levels, consumer confidence and levels of economic activity. Commodity prices have significantly retrenched, in many cases from recent historical highs, interest rates have fallen in absolute terms in many markets (although not in Georgia) and trade flows have contracted. Global equity markets have experienced severe declines and various currencies have depreciated significantly against the U.S. dollar. Numerous governments and central banks have responded by proposing programmes to make substantial funds and guarantees available to boost liquidity and confidence in their financial systems, as well as cutting taxes and lowering interest rates. It is not known whether these responses will be effective in addressing the severe economic and market conditions that exist at present, or whether recently proposed measures will be implemented as initially proposed.

The Bank's financial condition and business prospects are affected by global and local economic and market conditions. A worsening of these conditions in the Bank's Principal Markets may exacerbate the impact of these difficult market conditions on the Bank and other financial institutions and this could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Dependence on Banking and Other Licences

Bank of Georgia is subject to banking regulations and requirements in Georgia, which have been adopted by the Parliament of Georgia ("**Parliament**") and the FSA (an independent agency under the auspices of the NBG).

All banking operations and various related operations in Georgia require a general banking licence from the FSA. The FSA requires Georgian banks to comply with mandatory financial ratios and regularly file periodic reports. The NBG sets minimum reserve requirements for commercial banks. Georgian authorities, including the FSA, have the right to, and do, conduct periodic inspections of Bank of Georgia's operations throughout each year. The FSA may attach certain conditions and/or limitations to or revoke the general banking licence of Bank of Georgia if it concludes that the Bank has violated the applicable banking regulations.

Bank of Georgia has a current licence for all of its banking and other operations. Although Bank of Georgia believes that it is currently in compliance with its existing material licence and reporting obligations to the FSA and otherwise, there is no assurance that Bank of Georgia will be able to maintain the necessary licence or obtain other required licences in the future.

The loss of a licence, a breach of the terms of a licence by Bank of Georgia or a failure to obtain any further licences that may be required in the future could have a material adverse effect on Bank of Georgia's business, financial condition, results of operations and prospects. If the FSA revokes Bank of Georgia's general banking licence, then Bank of Georgia will be unable to accept deposits, which would severely restrict its ability to continue to operate and will lead to Bank of Georgia's liquidation.

Geographical Diversification

The Bank has made investments in countries of the CIS, in particular Ukraine and Belarus. The Bank's international presence exposes it to risks that it would not face as a purely domestic bank, including certain political and economic risks, compliance risks, liquidity risks, foreign currency exchange risk, as well as the risk of failure to market adequately to potential clients in other countries. To the extent the Bank expands its international operations further, it will become exposed to additional risks. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations.

Liquidity Risks

The Bank depends upon its ability to access financial resources whenever required to meet its obligations. To this end, the Bank's liquidity is managed through maintenance of a funding base comprising core retail and corporate customer deposits, sales and purchases of securities, interbank borrowing and lending, borrowing from the central banks in the Principal Markets, borrowing from international financial institutions, issuing debt securities and cash flow.

The extreme market conditions facing the financial services industry have been reflected in shortages of liquidity, lack of funding, pressure on capital and price volatility across a wide range of asset classes. The extreme market conditions and economic downturn have resulted in a reduction of deposits in the banking systems in the Principal Markets generally, leading to increased competition for such deposits and the risk of deposit migration.

In recent months, the Bank has been unable to access the international capital markets and has relied predominantly on funding received from international financial institutions ("**IFIs**").

While it is difficult to predict how long the conditions described above will prevail and the extent to which the Bank's banking and non-banking businesses will be affected, continuation or worsening of these factors could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Exposure to Credit Risk of Corporate and Retail Clients

The Bank is exposed to credit risks of corporate and retail clients in the Principal Markets. The financial performance of corporates in the Principal Markets is generally more volatile, and the credit quality of such corporates on average is less predictable, than that of similar companies doing business in more mature markets and economies. An accurate assessment of default risk on loans provided to corporate clients may be difficult for the Bank to make due to the unpredictability of economic conditions in the Principal Markets and abroad. In a recessionary environment, such as that which is currently ongoing, credit risk increases. Even though the Bank requires regular disclosure of its corporate clients' financial statements, such financial statements may not always present a complete and accurate picture of each client's financial condition. Furthermore, the Bank's corporate clients do not typically have extensive or externally verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Bank's credit risk evaluation procedures, it may be unable to evaluate correctly the current financial condition of each prospective corporate borrower and to determine accurately the ability of such corporate borrower to repay its loans when due. Similarly, the financial condition of private individuals transacting business with the Bank is difficult to assess and predict as the vast majority of retail borrowers have no or very limited credit history.

The majority of loans to clients are denominated in U.S. dollars or Euro. A customer's ability to repay such loans may be impaired due to the devaluation of the Lari, if such customer's principal income is predominantly in Lari. While the substantial majority of the Bank's loans to clients are secured by collateral, if a significant number of its corporate or individual borrowers and/or guarantors experience poor financial performance due to a significant deterioration in domestic or regional economic conditions, including a devaluation of the Lari, or volatility in certain sectors of the domestic or regional economies or if their financial condition deteriorates significantly for any reason, this could have a material adverse effect on the Bank's financial performance and results of operations.

Allowance for Impairment Loss Risk

As of 31 December 2008, the Bank's net allowance for impairment losses on loans to clients was GEL 106.6 million, the ratio of the Bank's allowance for impairment losses to total gross loans to clients was 5.0%, and the ratio of the Bank's allowance for impairment recognised losses to impaired loans was 35.2%. The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on FSA regulations and on an analysis of the assets at risk and reflects the amount which, in the judgment of Management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. If the impairment allowances prove to be inadequate, this may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Enforcement of Security

The Bank enters into security and/or guarantee arrangements for the substantial majority of its loans made to individuals and legal entities. Pursuant to the laws of the Principal Markets, enforcement of security may require state registration or require perfection through registration or through possession, which can result in unexpected and/or conflicting claims of secured creditors. In addition, pledges over moveable property may be impracticable due to the incapability of the pledgee to restrict the subsequent sale of such moveable property. Any delay or difficulty in perfecting or enforcing pledges may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Foreign Exchange and Currency Risk

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. Approximately 20% of the Bank's liabilities are denominated in GEL, while approximately 37% of its assets are denominated in GEL. Assets associated with operations in Ukraine and Belarus are denominated predominantly in hryvnia and Belarus roubles, respectively. The Bank translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets, into Lari when preparing its financial statements. As a result, the Bank's reported income is affected by changes in the value of the Lari with respect to such foreign currencies. The overall effect of exchange rate movements on the Bank's results of operations depends upon the rate of depreciation or appreciation of the Lari against its principal trading and financing currencies.

Partly in response to the increased demand for foreign currencies during the months following the Conflict and partly as a result of the downturn in the global economy and its impact on the Georgian economy (including a reduction in foreign direct investment ("**FDI**"), lower remittances to Georgia from abroad and a slowing of exports), the NBG allowed the Lari to depreciate by 16% at the beginning of November 2008. Such depreciation principally resulted in additional provision charges, foreign exchange losses at the subsidiary level as well as a deterioration in Bank of Georgia's capital adequacy ratios. The ability of the government of Georgia (the "**Government**") and the NBG to limit any further depreciation of the Lari will depend on a number of political and economic factors, including the Government's ability to control inflation, the availability of foreign currency reserves and FDI inflows. Annual inflation rates in Georgia (as measured by the end-of-period Consumer Price Index (the "**CPI**")) for 2006, 2007 and 2008 were 8.8%, 11.0% and 5.5%, respectively, according to information provided by the Department of Statistics.

Any additional depreciation of the Lari may lead to further erosion of the Bank's regulatory capital and pressure on its capital adequacy ratios, which could adversely affect the Bank's business, financial condition, results of operations and prospects.

Interest Rate Risk

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While the Bank monitors interest rates with respect to its assets and liabilities, and believes that its interest margin is sufficient to absorb movements in interest rates, to the extent the Bank is unable to pass on increases in interest rates to its clients, interest rate movements may adversely affect the Bank's financial position. The Bank's results of operations depend to a significant extent on its net interest income. Although, currently, net interest margins in the Principal Markets are generally higher than those in most Western jurisdictions, interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the central banks in the Principal Markets and domestic and international economic and political factors. There can be no assurance that the Bank will be able to protect itself from the negative effects of future interest rate declines. Any declines in the market interest rates, global benchmark rates and/or increases in rates payable on deposits could lead to a reduction in net interest income and net interest margin. Such a reduction in net interest income and net interest margin could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Risks Associated with Cost-Control Measures and Planned Disposals

The Bank is implementing a cost control programme as one of the Bank's strategic priorities for 2009. As part of this strategy, the Bank intends to close certain branches in Georgia and Ukraine, optimise its staff levels in the Principal Markets and focus on operational efficiencies and improvement of delivery channels.

The Bank also plans to dispose of certain non-core and non-performing assets over the next two to three years. Achievement of the Bank's disposal strategy will be dependent on a number of conditions beyond the Bank's control, including stabilisation of the global financial markets and global economic recovery as well as political and economic stability in Georgia. There can be no assurance that disposals will be completed in a timely fashion, on commercial terms acceptable to the Bank or at all, or will result in the anticipated benefits to the Bank's business, or will not result in unforeseen liabilities and losses. In the event that planned cost control measures fail to result in the cost savings anticipated by the Bank, or planned disposals are delayed, not consummated or result in unforeseen liabilities, this could have a material adverse effect on the Bank's financial condition and prospects.

Competition

In Georgia, the Bank principally competes with TBC Bank, VTB Bank Georgia, ProCredit Bank, Cartu Bank, Bank Republic and HSBC. In Ukraine and Belarus, the Bank competes with a wide range of local and international banks.

In the near future, the Bank expects increased competition for deposits, in particular. If the Bank is unable to continue to compete successfully in the Principal Markets or to execute its business strategy, this could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Technological Risks

The Bank relies heavily on information systems to process a large number of transactions efficiently and accurately and is currently upgrading a number of its information systems. A new core banking system was recently launched at BG Bank. In the near future, the Bank plans to implement a new core banking system in Georgia, a payroll management system and a cash management system. However, there can be no assurance that the new systems will be implemented in a timely manner, or without cost overruns, that the new systems will address all of the shortcomings of the current systems or will be sufficient to meet the needs of the Bank's business. In addition, although the Bank has developed back-up systems and a fully-equipped disaster recovery centre, and may continue some of its operations through branches in case of emergency, if the Bank's information technology systems fail, even for a short period of time, then it could be unable to serve some or all of its clients' needs in a timely manner and could lose business as a result. A temporary shutdown of the Bank's information systems could result in unexpected costs that may be required for information retrieval and verification. Any failure or interruption of the Bank's information technology systems could result in failures or interruptions in the Bank's decision-making processes and risk management procedures or a disruption in the Bank's business activities, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either Bank of Georgia or the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

Restrictive Covenants

Bank of Georgia and/or its subsidiaries are parties to a number of loan agreements that contain covenants imposing significant operating and financial restrictions on it/them as borrower. These restrictions require Bank of Georgia and/or its subsidiaries, among other things, to maintain compliance with specified financial ratios and significantly limit, and in some cases restrict, among other things, the ability of Bank of Georgia and certain of its subsidiaries to incur additional indebtedness, create liens on assets, undertake corporate reorganisations, enter into business combinations or engage in certain transactions with companies within the Bank. From time to time in the past, Bank of Georgia and its subsidiaries have breached certain of these covenants. While Bank of Georgia and its subsidiaries have obtained waivers from the relevant lenders in respect of its/their past breaches when they took place, there can be no assurance that such waivers will be granted for any breaches that may occur in the future.

A failure by Bank of Georgia and/or its subsidiaries to comply with the covenants in their loan agreements may constitute a default under the relevant agreements and could trigger a cross-default under other agreements to which such entity is a party, including, in the case of Bank of Georgia, its outstanding Eurobonds. In the event of such a default, the Bank's obligations under one or more of these agreements could, under certain circumstances, become immediately due and payable, which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Dependence on Key Management and Qualified Personnel

The Bank's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to the Bank's business. There can be no assurance that the Bank will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of the Bank's senior management team or an inability to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, results of operations, financial condition and prospects.

Risks Relating to Georgia and the Other Principal Markets

Political Risk

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political conditions in Georgia were highly volatile in the 1990s and in the early part of this decade. Since January 2004, following the peaceful uprising in November 2003, known as the "Rose Revolution", Mikheil Saakashvili has served as President of Georgia. The first few years of President Saakashvili's term in office were marked by relative political stability and the introduction of policies oriented towards the acceleration of political and economic reforms. However, President Saakashvili's term has also been marked by a number of high-profile events since 2006, which have triggered a wave of popular protests.

On 7 November 2007, after five days of demonstrations blocking the main avenue outside Parliament, riot police broke up the protests and a two-week state of emergency banning all privately-owned broadcast media and public gatherings was imposed. On 8 November 2007, President Saakashvili announced that early presidential elections would be held on 5 January 2008, thereby reducing his constitutional term by a year, and that a plebiscite would be held on rescheduling parliamentary elections for spring 2008. President Saakashvili was re-elected on 5 January 2008 with 53.5% of the vote and the National Movement Party won the majority of votes in the parliamentary elections held in May 2008. Following the further deterioration of already strained political relations between Russia and Georgia, the Conflict took place, after which Russia formally recognised the independence of South Ossetia and Abkhazia. See "—Regional Tensions".

In April 2009, the Georgian opposition renewed protests demanding President Saakashvili's resignation, which culminated in large-scale public demonstrations. Although President Saakashvili met the opposition leaders in May and offered to cooperate on a variety of constitutional, judicial and election reforms, the opposition leaders considered the proposals inadequate. The opposition continued to hold daily rallies until the end of July.

In light of such recent political developments, there can be no assurance that the Government will be able to maintain political and civil stability or that reform and economic growth will not be hindered as a result of political disruptions. Any adverse changes in the political climate in Georgia, in particular, any changes affecting the stability of the Government or involving a rejection or reversal of its current reform policies, could adversely affect the Bank or the price of the Bank's securities.

Regional Tensions

Since the restoration of its independence in 1991, Georgia has had ongoing disputes with local separatists in Abkhazia and South Ossetia. Moreover, relations with Russia have been continuously strained, primarily due to Russia's involvement in the unresolved disputes in Abkhazia and South Ossetia. From March 2008 until July 2008, a series of actions resulted in the further deterioration of Russian-Georgian political relations. These included Russia's unilateral withdrawal from a 1996 Commonwealth of Independent States ("**CIS**") treaty banning trade and certain other economic links with Abkhazia, statements by the Russian State Duma calling on the Russian government to consider the expediency of recognising Abkhazia and South Ossetia, statements by the Russian President promising to increase Russian support for Abkhazia and South Ossetia if Georgia was awarded a North Atlantic Treaty Organisation ("**NATO**") Membership Action Plan and Russia's deployment of extra peacekeeping troops to Abkhazia.

There were reports of periodic exchanges of fire between the South Ossetian militia and Georgian troops throughout June and July 2008. Clashes between them in early August led to deaths on both sides and each of the South Ossetian militia and Georgian troops accused the other of opening fire first. During the first week of August, fighting intensified and on 7 August, President Saakashvili ordered a unilateral ceasefire. According to the Georgian military, fighting intensified despite the unilateral ceasefire and Georgian villages were shelled. Georgia responded by launching military operations against the break-away region of South Ossetia, in which Russian peacekeeping troops were stationed.

In August 2008, Russian tanks entered South Ossetia and occupied the region. In five days of fighting, Georgian forces were ousted from both South Ossetia and Upper Abkhazia and the Russian military took up positions inside Georgia. On 10 August 2008, Georgia ordered a ceasefire in South Ossetia and offered to hold peace talks with Russia, which offer was declined by Russia. Over the following few days, Russia sent warships to land ground troops in Abkhazia and continuously bombed targets throughout the territory of Georgia, including the vicinity of Tbilisi Airport.

After mediation by the European Union ("**EU**"), the parties reached a preliminary ceasefire agreement on 12 August 2008, which was signed by Georgia and Russia on 16 August 2008. The terms of the agreement called for the prohibition of force, cessation of all military action, full withdrawal of Russian troops to pre-Conflict positions and free access to humanitarian aid. On 26 August 2008, Russia formally recognised the independence of South Ossetia and Abkhazia. On 29 August 2008, Georgia severed direct diplomatic relations with Russia and currently conducts relations for consular and humanitarian purposes via special interest sections at the Swiss Embassy.

Despite the terms of the ceasefire agreement, Russian forces maintained positions at new checkpoints on the territory of Georgia outside South Ossetia and Abkhazia. In October 2008, Russian troops withdrew from new checkpoints into the areas adjacent to South Ossetia and Abkhazia, including in areas that were under Georgian control before the Conflict. Furthermore, Russia has announced its intention to station 3,800 troops in South Ossetia and 3,800 troops in Abkhazia, which Georgia considers a violation of the 12 August ceasefire agreement requiring Russia to withdraw its forces to their pre-conflict positions.

As a result of the Conflict, Russia faced strong criticism from certain Western countries, including the United States, the United Kingdom, Poland, Sweden, the Baltic states and other EU countries. The unilateral recognition of both South Ossetia and Abkhazia by Russia was met by condemnation from NATO, the UN Secretary General, the OSCE Chairman, the Presidency of the Council of the European Union and the European Commission.

In January 2009, the United States and Georgia signed a Charter on Strategic Partnership, which is based on the principles of strategic cooperation between the two states and support for the sovereignty, independence, territorial integrity, inviolability of borders and the strengthening of democracy and stability.

Any further attempt by the Russian government to provide arms, munitions or other military assistance to the separatists in South Ossetia and/or Abkhazia, to challenge the territorial integrity of Georgia or otherwise to materially intervene in Georgia's internal affairs could increase political uncertainty, create instability and potentially lead to hostilities, all of which would have a detrimental impact on the Georgian economy and in turn this could have an adverse effect on the Bank's business, financial position, results of operations and prospects.

Economic Instability

Since the dissolution of the Union of Soviet Socialist Republics in the early 1990s, Georgia's society and economy have undergone a rapid transformation from a one-party state with a centrally-planned economy to a pluralist democracy with a market economy. This transformation has been marked by periods of significant instability resulting at various times in declines in gross domestic product ("**GDP**"), hyperinflation, an unstable currency, high levels of state debt relative to GDP, the existence of a "black" and "grey" market economy, high unemployment and underemployment and the impoverishment of a large portion of the Georgian population.

Over the past five years, the Government has implemented rapid economic reforms, which have resulted in increased GDP growth and FDI, relative stability of the Lari (subject as disclosed below) and a stable rate of inflation. The Conflict and the global financial crisis have affected Georgia, resulting in a general economic slowdown, as well as decreases in exports and private capital inflows. Based on preliminary statistics provided by the Department of Statistics, real GDP growth year-on-year was 2.1% from 2007 to 2008 as compared to 12.3% from 2006 to 2007. GDP growth is expected to decrease to negative 1.5% from 2008 to 2009, according to estimates published by the Government of Georgia. FDI in 2008 decreased by 22.4% compared to 2007. Furthermore, in the wake of the global financial crisis, the Lari depreciated by 16% relative to the U.S. dollar as a result of the NBG's one-off correction in November 2008, which also resulted in the depreciation of the Lari relative to other major currencies. Although the foreign exchange market has stabilised and a portion of donor pledges (discussed in "—Dependence on Donor Pledges" below) have been distributed, resulting in greater economic stability, there can be no assurance that the depreciation of Lari will not continue or that FDI will not decrease further.

Further material depreciation of the Lari relative to the U.S. dollar or other currencies, changes in monetary policy, inflation, delays in private capital inflows, reduction of remittances, protracted suspension of trade activities or other factors could adversely affect Georgia's economy in the future and could adversely affect the Bank's business, results of operations, financial condition and prospects.

Dependence on Donor Pledges

On 22 October 2008, the European Commission and World Bank sponsored a Georgia donors' conference in Brussels in order to rally support for Georgia in the wake of the Conflict. At the conference, a total of over U.S.$4.5 billion was pledged to Georgia by the European Community, EU Member States, the United States, Japan, the EBRD, the European Investment Bank ("**EIB**"), the Asian Development Bank ("**ADB**"), the World Bank and IFC, among others, with disbursements to be made within three years. The Georgian banking sector was specifically allocated over U.S.$852 million from the total pledges.

The donor money is intended to help stabilise the Georgian economy and in particular, provide funding to the Georgian banking sector. There can be no assurance that Georgia will receive the total amount pledged, or that the donor money will result in the expected improvements to the Georgian economy. If Georgia does not receive the total amount pledged, or the donor money does not result in the expected improvements in the Georgian economy, this could adversely affect the Georgian economy as a whole and thus the Bank's business.

Currency Regulation

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of the Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2008, the total volume of trading turnover in the Lari-U.S. dollar market amounted to U.S.$2.25 billion. The official exchange rate of the Lari against the U.S. dollar is determined according to the average weighted exchange rate calculated on the basis of the interbank transactions (including those in which the NBG is involved) registered in Bloomberg Electronic Trading System within a specified period of time. The official exchange rate of the Lari against other foreign currencies is determined on the basis of cross currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states.

According to the NBG, the NBG had in excess of U.S.$1.46 billion worth of currency reserves as at 31 December 2008. While the Government believes that the reserves will be sufficient to sustain the domestic currency market in the short-term, there can be no assurance that a relatively stable market will continue indefinitely and a lack of growth of this currency market may hamper the development of Georgia's economy, negatively affect the business of the Bank's corporate clients, and in turn, the Bank's business, results of operations, financial condition and prospects.

Developing Legal Systems

Each of the Principal Markets, to varying degrees, is still developing an adequate legal framework required for the proper functioning of a market economy. For example, several fundamental Georgian civil, criminal, tax, administrative and commercial laws have only recently come into effect. Furthermore, the continued significant changes in Georgian legislation have led to confusion regarding the proper interpretation and implementation of laws and regulations due to the lack of sufficient time in which to develop a consistent body of practice. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system, place the quality, the enforceability and underlying constitutionality of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system is understaffed and under-funded, and judges and courts in Georgia are generally inexperienced in the area of business and corporate law. Most court decisions are not readily available to the public, and the enforcement of court judgments can, in practice, be difficult in Georgia. The uncertainties of the Georgian judicial system could have a negative effect on the economy and the Bank's ability to operate in Georgia could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Similar risks are characteristic of the Ukrainian and Belarus legal systems.

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for such implementation has been established. As a general matter, Georgian companies do not have corporate governance procedures that are in line with international standards, including the standards set forth in the UK Combined Code of Corporate Governance of June 2008, the US Sarbanes-Oxley Act of 2002 or with generally accepted international standards, and there can be no assurance that the Bank's corporate governance policies will comply with such standards in the future.

Risks Related to Money Laundering and/or Terrorist Financing

Although the Bank has implemented a comprehensive anti-money laundering ("**AML**") and "know-your-customer" ("**KYC**") policy, monitored by its AML Compliance Department, and adheres to all requirements under applicable legislation aimed at preventing it being used as a vehicle for money laundering, there can be no assurance that these measures will be completely effective. If, in the future, the Bank fails to comply with timely reporting requirements or other AML regulations and/or is associated with money laundering and/or terrorist financing, its reputation, result of operations, financial conditions and prospects may be adversely affected. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

Uncertainties of Tax Systems

In the Principal Markets, tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Bank and its business generally. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. While the Bank believes that it is currently in compliance with the tax laws affecting its operations, it is possible that the relevant authorities could take differing positions with regard to interpretative issues, which may result in the Bank facing tax adjustments and/or fines.

Statistical Information

A range of ministries and institutions, including the Department of Statistics, the Ministry of Finance, the NBG and the Ministry of Economic Development, produce statistics relating to Georgia and its economy. Georgia adheres to the International Monetary Fund ("**IMF**") General Data Dissemination Standards. However, these statistics may be more limited in scope and published less frequently than in the case of other countries such that adequate monitoring of key fiscal and economic indicators may be difficult. Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be available from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source.

Possible Non-Enforceability of Foreign Judgments and Arbitral Awards

Bank of Georgia is incorporated under the laws of Georgia and most of its assets are located in Georgia. In addition, most of Bank of Georgia's management and executive officers reside or are located outside of the United Kingdom. As a result, it may not be possible for investors to effect service of process upon Bank of Georgia or its management or executive officers. There is a risk that a lawsuit concerning an agreement governed by English law cannot be brought in an original action in Georgia and that a judgment of the English courts will not be enforced in Georgia under certain circumstances.

Generally, foreign court judgments are recognised and enforceable in Georgia unless there is a pending case on the same matter in Georgian courts, the courts of the country rendering the judgment do not recognise the judgments of Georgian courts, the judgment contradicts basic legal principles of Georgia, or one of several other conditions is not satisfied. No treaty exists between Georgia and most Western jurisdictions (including the United Kingdom and the United States) for the reciprocal enforcement of foreign court judgments, which may require new proceedings to be brought in Georgia in respect of a judgment already obtained in any such jurisdiction against Bank of Georgia or its directors or executive officers. In addition, Georgian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Georgian legislation for the refusal to recognise and enforce foreign court judgments in Georgia, may significantly delay the enforcement of any such judgment, or potentially deprive an interested party of effective legal recourse for claims.

Holders of GDRs may enforce their rights by arbitration. Georgia is a party to the New York Convention. Therefore, an arbitral award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention, compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures, and requirements established by Georgian legislation. However, it may be difficult in practice to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities, official and unofficial political resistance to enforcement of awards against Georgian companies in favour of foreign investors and Georgian courts' inability to enforce such orders, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Georgia.

Furthermore, any arbitral award made pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of foreign law to the Deposit Agreement and GDRs may be limited by the mandatory provisions of Georgian laws, including those relating to the exclusive jurisdiction of Georgian courts and the application of Georgian laws with respect to bankruptcy, rehabilitation, temporary administration or liquidation of Georgian companies and credit organisations in particular.

Volatility of the Trading Market

The market for Bank of Georgia securities is, and will continue to be influenced by economic and market conditions in Georgia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the European Union and elsewhere. There can be no assurance that an active trading market for Bank of Georgia securities will develop further, or, if one does develop, that events in Georgia, in the CIS or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of Bank of Georgia securities or that economic and market conditions will not have any other adverse effect.

Risks Relating to the GDRs

Voting Rights Limited by Terms of Deposit Agreement and Requirements of Georgian Law

Holders of GDRs do not have direct voting rights with respect to the Shares represented by the GDRs. They have a right to instruct the Depositary as to how to exercise those rights, subject to the provisions of the Deposit Agreements. However, there are practical limitations upon their ability to exercise voting rights due to additional procedural steps involved in Bank of Georgia's communication with holders. GDR holders will not receive notices of meetings directly from Bank of Georgia, but from the Depositary, which has undertaken to deliver to GDR holders notices of meeting, copies of voting materials that it receives from the Bank and a statement as to the manner in which instructions may be given by holders. As a result, the process of exercising voting rights may take longer for holders of GDRs than for holders of Shares. In addition, there is a possibility that a holder will not receive voting materials or otherwise learn of a meeting in time to enable the holder to return voting instructions to the Depositary in a timely manner. In the event that the Depositary does not receive voting instructions from a holder either because no voting instructions were returned to the Depositary or because the voting instructions are incomplete, illegible or unclear or if the holder fails to confirm its ownership interest and identify the ultimate beneficial owner, if required, of the GDRs, a discretionary proxy will be provided to the Bank. Additionally, holders will be unable to instruct the

Depositary to vote the Shares represented by their GDRs on a cumulative basis or introduce resolutions on the agenda of the shareholders' meetings or request the convocation of the shareholders' meetings. Holders who wish to take such actions must make a timely request for the cancellation of their GDRs and take delivery of the underlying Shares, thus becoming the owner of such Shares on Bank of Georgia's share register. See "Terms and Conditions of the Global Depositary Receipts".

Prior Approval of Acquisition of Significant Interest in Bank of Georgia

If a person intends to acquire Shares and/or GDRs and as a result of such acquisition, the shareholding of this person or its beneficial owner will exceed 10%, 25% or 50% of the share capital of Bank of Georgia, such person must submit a declaration to and obtain a prior approval from the FSA.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of Bank of Georgia, without submission of a declaration to the FSA or despite the FSA's refusal, is deemed to be null and void.

If there are grounds for suspicion, the FSA may request from Bank of Georgia the submission of a declaration about the direct or indirect beneficial holder of more than 10% of the authorised share capital or fully paid-up issued share capital of Bank of Georgia (a "**relevant person**"). In this case, the FSA is entitled to suspend temporarily or indefinitely the voting rights of a relevant person or request that such person reduces its shareholdings to 10%. See "Description of Share Capital and Certain Requirements of Georgian Law—Prior Approval of Acquisition of a Significant Interest in a Georgian Bank".

Reporting Obligations of Holders of Shares and GDRs

Holders of Shares and GDRs could be subject to reporting obligations under Georgian law.

Any person (natural or legal), related persons or a group of persons who acquires more than 10% of the voting rights in Bank of Georgia, or who otherwise obtains control of Bank of Georgia, must give written notice to Bank of Georgia, the FSA and the stock exchange where the securities are traded within 15 days of the acquisition of voting rights or obtaining control. A person may also be obliged to give such written notice if he or she, directly or indirectly, acquires or disposes of 5% of the voting rights in Bank of Georgia.

Furthermore, any person that, directly or indirectly, beneficially owns more than 10% of the Shares must submit a declaration to the FSA in April of each calendar year based on the amount of his, her or its shareholdings as of 31 December of the preceding calendar year.

Non-compliance with the reporting obligations under Georgian law could lead to administrative fines and civil sanctions, including a suspension of voting rights in respect of the Shares at the next General Meeting of Shareholders ("**GMS**"), or indefinitely. The FSA may also request the relevant person to reduce his, her or its shareholding to 10%. See "Description of Share Capital and Certain Requirements of Georgian Law—Reporting Obligations Related to Significant Ownership of Shares or GDRs".

Future Issuances of Sales of Shares or GDRs

Future issuances or sales of Shares, or securities convertible into or exchangeable for Shares, directly or in the form of depositary receipts at any time by Bank of Georgia, or even the perception that such issuances or sales might occur, could adversely affect the market price of the GDRs and the Shares. Sales of a substantial number of Shares or GDRs in the public markets, or the perception that these sales may occur, could have a material adverse effect on the price of the GDRs or could impair Bank of Georgia's ability to obtain further capital through an offering of equity securities. Future issuances of Shares by Bank of Georgia may also reduce an investor's percentage ownership interest in Bank of Georgia if that investor does not duly exercise its pre-emptive rights in respect of any new issue of Shares. See "Description of Share Capital and Certain Requirements of Georgian Law—Issue of Ordinary Shares and Pre-emption Rights". In particular, such rights may not be made available to holders of GDRs if Bank of Georgia does not request the Depositary to do so, or if it is not lawful or reasonably practicable for the Depositary to do so. See "Terms and Conditions of the Global Depositary Receipts". In addition, even if pre-emptive rights are made available to holders of GDRs, the process for exercising such pre-emptive rights through the Depositary may take longer for such holders than for holders of Bank of Georgia's Shares and Bank of Georgia cannot assure investors that they will be able to instruct the Depositary to exercise pre-emptive rights in a timely manner. Furthermore, Bank of Georgia may issue other classes of securities with rights, preferences or privileges that are more favourable than those attached to the Shares.

Risks Related to the Failure of GDR holders to Comply with Requests for Information

GDR holders and/or beneficial owners may from time to time be requested by the Bank or the Depositary on behalf of the Bank to provide information as to the capacity in which they hold the GDRs and the nature of their interest and the interest of any other affiliated person in such GDRs. Failure to comply with such request could cause the Depositary to take a number of actions, including withholding the execution, delivery or registration of transfer or cancellation of any GDR holding, withholding the distribution of any dividend or distribution of rights or the net proceeds of the sale of deposited property, removing or limiting voting rights or selling or disposing on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holders or beneficial owners until such request is complied with, in each case to the Depositary's reasonable satisfaction and subject to applicable law.

Georgian Taxes Applicable to Non-Georgian and Georgian Holders of Shares or GDRs

The gain realised, or deemed to be realised, by non-Georgian or Georgian residents on the disposition, exchange or conversion of Shares or GDRs is subject to taxation in Georgia. Non-Georgian and Georgian entities are required to pay Georgian profit tax on capital gains at a flat rate of 15%. Capital gains of resident natural persons as well as of non-resident natural persons are subject to personal income tax at a flat rate of 12% until 1 January 2011. Although no definitive rulings have been issued under Georgian tax laws as to whether the deposit and withdrawal of Shares in and from a depositary receipt facility represents a disposition, exchange or conversion which is subject to tax in Georgia, holders of GDRs or Shares may be subject to tax on Georgian-source capital gains upon the deposit and withdrawal of Shares with and from the custodian of the Depositary pursuant to the terms and conditions that apply to the GDRs, and, further, the custodian may be subject to profit tax upon the withdrawal of the Shares from the depositary receipt facility by the GDR holders. Additionally, a 5% Georgian withholding tax may apply to the payment of dividends on the Shares or GDRs to non-Georgian entities and natural persons. The capital gains received by a natural person from the transfer of securities owned by him for more than two years for the purpose of receiving dividends and/or interest are not subject to personal income tax. Furthermore, provided that the Shares or GDRs are considered publicly traded securities admitted to trading on a stock exchange listing with free float exceeding 25% as of the end of each of the reporting year and the preceding year, capital gains and dividend income received from such Shares or GDRs will not be subject to taxation in Georgia. However, no clear guidelines are available on how the free float must be determined, including, *inter alia*, whether the GDRs listed on the LSE will be counted towards the free float for Georgian tax purposes. In addition, certain relief on taxes payable by non-Georgian holders may be available pursuant to applicable double taxation treaties. See "Taxation—Georgia".

DIVIDEND POLICY

Over the past four years, Bank of Georgia has not declared or paid any dividends. Instead, Bank of Georgia has reinvested net income into its core business areas. However, in the future, Bank of Georgia may choose to declare and pay dividends.

The following table provides information on the dividend payments made by Bank of Georgia on its Shares in respect of the years indicated.

	Shares outstanding at Record Date [(1)]	Amount of Distributed Dividends	Dividend Per Share	Dividend Payment as a % of Net Income
		(Amounts in Lari)		
2004	11,273,386	—	—	0.0%
2005	14,728,784	776,478	0.05	5.8%
2006	25,290,198	—	—	0.0%
2007	31,247,511	—	—	0.0%
2008	31,271,525	—	—	0.0%
2009	31,193,221	—	—	0.0%

Notes:

(1) The record date is established before the relevant GMS (as defined below) at which the amount of dividends is declared, if any, for the previous year.

The Georgian Law on Entrepreneurs (the "**Law on Entrepreneurs**"), the rules of the Georgian securities market regulator and Bank of Georgia's Charter set forth the procedure for the distribution of dividends, if any, to the shareholders of Bank of Georgia. Dividends may be paid after the Bank of Georgia's annual accounts have been approved at the GMS, and show that the distribution of dividends is permissible out of the net profits of Bank of Georgia. The Law on Entrepreneurs also allows payment of interim dividends, although the Law does not provide guidelines as to the methods and procedures for interim dividend payments. According to the Charter, within one month from the completion of the annual audit, but in any case at least one month prior to the annual GMS, the Management Board of Bank of Georgia (the "**Management Board**") is required to prepare a proposal on the distribution of profit and submit this proposal to the Supervisory Board of Bank of Georgia (the "**Supervisory Board**") for approval. If the Supervisory Board and the Management Board cannot agree on the proposal, both proposals are submitted for approval at the GMS. The payment of dividends is made not more than two months after the date of the GMS which resolved on the distribution of profits. To the extent that dividends are declared and paid by Bank of Georgia, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of the Shares underlying the GDRs, subject to the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

Bank of Georgia anticipates that any dividends it may pay in the future in respect of the Shares represented by the GDRs will be declared and paid to the Depositary in Lari. Dividends paid to the Depositary in Lari will be converted into U.S. dollars by the Depositary and paid to holders of GDRs, net of the Depositary's fees and expenses as described under "Terms and Conditions of the Global Depositary Receipts—Conversion of Foreign Currency". Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Lari and the U.S. dollar.

MARKET INFORMATION

The Shares have been listed on the GSE since 11 July 2000. The following table sets out the high and low trading prices per Share of Bank of Georgia for the periods indicated on the GSE since trading began on 25 July 2000.

Period	High	Low
	(Amounts in Lari)	
2009 (through 31 July 2009)	10.0	3.4
2008	45.0	6.1
2007	67.0	32.8
2006	35.5	6.0
2005	8.3	5.6
2004	6.0	0.5
2003	2.0	0.5
2002	3.5	1.0
2001	3.2	1.2
2000 (beginning from 25 July 2000)	2.2	1.2

CAPITALISATION AND INDEBTEDNESS

The following table sets forth, as of 31 December 2008, the Bank's historical long-term debt and total capitalisation. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and accompanying notes included elsewhere in this Prospectus.

	As of 31 December 2008	
	(thousands of Lari)	*(thousands of U.S. dollars)*(1)
Long-term debt(2):		
Senior long-term debt	423,525	254,064
Subordinated long-term debt	160,363	96,199
Total long-term debt, net of current portion	**583,888**	**350,263**
Equity:		
Ordinary shares	31,253	18,748
Share premium	468,732	281,183
Treasury shares	(2,018)	(1,265)
Retained earnings	141,491	84,878
Other reserves	26,201	15,717
Total equity attributable to shareholders	**665,659**	**399,262**
Minority interest	53,190	31,908
Total equity	**718,849**	**431,169**
Total capitalisation(3)	**1,302,737**	**781,432**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) "Long-term debt" excludes indebtedness with a maturity of less than one year and excludes the passthrough notes issued by Rubrika Finance Company Netherlands B.V.

(3) Total capitalisation is the sum of long-term debt, minority interest and total equity.

Since 31 December 2008, total capitalisation and indebtedness has increased to GEL 1,636,137, following the drawdown of the EBRD and IFC facilities in the first quarter of 2009.

Save as disclosed above, there has been no material change in the Bank's total capitalisation since 31 December 2008.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information of the Bank as of and for the years ended 31 December 2006, 2007 and 2008, which has been extracted or derived from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the notes thereto, as well as the sections entitled "Capitalisation and Indebtedness" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this Prospectus. In the opinion of Management, the Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby.

Solely for the convenience of the reader, certain information derived from the Financial Statements included herein has been converted into U.S. dollars at exchange rates established by the NBG and effective as of the date of the relevant information.

The amounts translated in U.S. dollars should not be construed as representations that the Lari amounts have been or could be converted to U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if the Bank reported in U.S. dollars.

Consolidated Statement of Operations Data

	For the year ended 31 December			
	2006	**2007**	**2008**	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Interest income	100,271	242,304	403,939	242,315
Interest expense	(33,549)	(112,085)	(183,099)	(109,837)
Net interest income before impairment of interest earning assets	**66,722**	**130,219**	**220,840**	**132,478**
Impairment of interest earning assets	(13,830)	(18,117)	(124,147)	(74,473)
Net interest income after impairment of interest earning assets	**52,892**	**112,102**	**96,693**	**58,005**
Fee and commissions income	28,139	48,358	63,503	38,094
Fee and commissions expense	(3,453)	(6,610)	(13,534)	(8,119)
Net fees and commissions income	**24,686**	**41,748**	**49,969**	**29,975**
Other non-interest income	**22,424**	**72,646**	**91,756**	**55,043**
Other non-interest expense	**(65,099)**	**(136,784)**	**(239,222)**	**(143,504)**
Income (loss) before income tax expense	**34,903**	**89,712**	**(804)**	**(481)**
Net income (loss) for the period	**26,772**	**75,642**	**174**	**104**
Earnings (loss) per share	**1.622**	**2.958**	**0.129**	**0.077**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Consolidated Balance Sheet Data

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Assets				
Cash and cash equivalents	108,045	405,770	397,591	238,507
Amounts due from credit institutions	65,475	154,560	99,633	59,768
Loans to customers, net	684,842	1,675,681	2,039,022	1,223,169
Finance lease receivables	9,091	46,674	41,605	24,958
Investment securities	197,131	234,851	56,582	33,942
Investments in associates	496	5,208	16,716	10,028
Property and equipment and investment property	68,052	239,721	349,073	209,402
Goodwill and other intangible assets	43,429	115,989	152,459	91,457
Income tax assets	—	1,557	12,786	7,670
Prepayments	3,476	5,942	18,319	10,989
Other assets	33,289	67,658	75,121	45,063
Total assets	**1,213,326**	**2,953,611**	**3,258,907**	**1,954,953**
Liabilities				
Amounts owed to credit institutions	224,381	901,795	1,216,722	729,887
Amounts owed to customers	559,646	1,355,476	1,193,124	715,731
Debt securities issued	1,073	4,993	5	3
Income tax liabilities	8,138	37,209	24,394	14,633
Provisions	672	1,003	4,263	2,558
Other liabilities	44,558	95,144	101,550	60,918
Total liabilities	**838,468**	**2,395,620**	**2,540,058**	**1,523,730**
Equity				
Share capital	25,202	27,155	31,253	18,748
Additional paid-in capital	277,440	315,415	468,732	281,183
Treasury shares	(1,004)	(1,737)	(2,018)	(1,211)
Retained earnings	63,746	136,342	141,491	84,878
Other reserves	5,257	67,354	26,201	15,717
Total equity attributable to shareholders	**370,641**	**544,529**	**665,659**	**399,315**
Minority interests	4,217	13,462	53,190	31,908
Total equity	**374,858**	**557,991**	**718,849**	**431,223**
Total liabilities and equity	**1,213,326**	**2,953,611**	**3,258,907**	**1,954,953**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Selected Financial Ratios

	For the year ended 31 December		
	2006	2007	2008
Profitability ratios:			
ROAA[(1)]	3.19%	3.63%	0.01%
ROAE[(2)]	11.48%	16.22%	0.03%
Net interest margin[(3)]	10.39%	8.64%	10.34%
Interest expense to interest income	33.46%	46.26%	45.33%
Net fee and commission income to total operating income[(4)]	21.69%	17.07%	13.78%
Interest income to average interest earning assets[(4)]	15.62%	16.07%	18.91%
Cost of funds[(5)]	5.91%	7.36%	7.84%
Net spread[(6)]	9.71%	8.71%	11.07%
Net non-interest income to total operating income[(7)]	39.78%	43.17%	31.67%
Efficiency ratios:			
Other non-interest expense to average total assets	7.55%	6.14%	6.84%
Salaries and other employee benefits to total operating income[(8)(9)]	29.27%	30.92%	30.00%
Salaries and other employee benefits to other non-interest expense[(8)]	52.66%	59.10%	51.23%
Liquidity ratios (at period end):			
Net loans to total assets	56.44%	56.73%	62.57%
Net loans to amounts owed to customers	122.37%	123.62%	170.90%
Net loans to total deposits[(9)]	106.72%	116.72%	156.63%
Net loans to total liabilities	81.68%	69.95%	80.27%
Interest earnings assets to total assets[(3)]	78.02%	70.06%	67.60%
Liquid assets to total assets[(10)]	30.55%	26.92%	16.99%
Total deposits to total assets[(9)]	52.89%	48.61%	39.95%
Amounts owed to customers to total deposits	87.21%	94.42%	91.65%
Amounts owed to customers to total equity (times)	1.49	2.43	1.66
Amounts due from credit institutions to amounts owed to credit institutions, except for borrowings from international credit institutions	79.75%	192.89%	91.65%
Total equity to net loans	54.74%	33.30%	35.25%
Leverage, (times)[(11)]	2.24	4.29	3.53
Asset quality:			
Allowance at period end for loan impairment to gross loans[(12)]	2.98%	1.70%	4.97%
Impairment for period end of interest earning assets to average gross loans	2.71%	1.50%	6.45%
Capital adequacy (at period end):			
Consolidate Tier I capital adequacy ratio[(13)]	39.18%	20.71%	21.62%
Consolidate Total capital adequacy ratio[(13) (14)]	42.52%	24.40%	26.40%
Standalone Tier I capital adequacy ratio[(15)]	45.54%	24.98%	25.46%
Standalone Total capital adequacy ratio[(15) (16)]	48.08%	22.04%	24.81%

Notes:

(1) Return on average total assets.

(2) Return on average total equity.

(3) Net interest income before impairment of interest earning assets divided by average interest earning assets. Interest earning assets include time deposits with credit institutions with effective maturity up to 90 days, amounts due from credit institutions, loans to customers, minimum lease payments receivable and investment securities.

(4) Total operating income includes net interest income before impairment of interest earning assets, net fees and commissions income and other non-interest income.

(5) Cost of funds equals interest expense over the average of amounts owed to credit institutions, amounts owed to customers and debt securities issued.

(6) Net spread is calculated as the difference between interest expense by average interest bearing liabilities and interest income to average interest earning assets.

(7) Net non-interest income is the sum of net fees and commissions income and other non-interest income.

(8) Salaries and other employee benefits amounted to GEL 33.3 million, GEL 75.6 million and GEL 108.8 million as of 31 December 2006, 2007 and 2008, respectively.

(9) Total deposits include amounts owed to customers and amounts owed to credit institutions except for the borrowings from credit institutions.

(10) Liquid assets include cash and cash equivalents and investment securities available for sale. Liquid assets amounted to GEL 117.9 million, GEL 448.1 million and GEL 431.3 million as of 31 December 2006, 2007 and 2008, respectively.

(11) Total liabilities divided by total equity.

(12) Allowance for loan impairment amounted to GEL 21.0 million, GEL 28.9 million and GEL 106.6 million as of 31 December 2006, 2007 and 2008, respectively.

(13) The consolidated Tier I capital adequacy ratio calculated in accordance with Basel Capital Accord Standards ("**Basel Standards**"). The consolidated Tier I capital adequacy ratio of the Bank equals the consolidated Tier I capital divided by the consolidated risk weighted assets. The consolidated Tier I capital amounted to GEL 366.4 million, GEL 478.9 million and GEL 637.8 million as of 31 December 2006, 2007 and 2008, respectively. The consolidated risk weighted assets amounted to GEL 935.2 million, GEL 2,312.8 million and GEL 2,950.4 million as of 31 December 2006, 2007 and 2008, respectively.

(14) The consolidated total capital adequacy ratio calculated in accordance with Basel Standards. The consolidated total capital adequacy ratio of the Bank equals regulatory capital (Tier I +Tier II - deductions) divided by risk weighted assets. The consolidated regulatory capital (Tier I + Tier II - deductions) amounted to GEL 397.7 million, GEL 564.4 million and GEL 779.0 million as of 31 December 2006, 2007 and 2008, respectively.

(15) The standalone Tier I capital adequacy ratio calculated in accordance with Basel Standards. The standalone Tier I capital adequacy ratio of Bank of Georgia equals the standalone Tier I capital divided by the standalone risk weighted assets. The standalone Tier I capital amounted to GEL 366.2 million, GEL 464.5 million and GEL 651.8 million as of 31 December 2006, 2007 and 2008, respectively. The standalone risk weighted assets amounted to GEL 804.1 million, GEL 1,859.3 million and GEL 2,560.7 million as of 31 December 2006, 2007 and 2008, respectively.

(16) The standalone total capital adequacy ratio calculated in accordance with Basel Standards. The standalone total capital adequacy ratio of Bank of Georgia equals the standalone regulatory capital (Tier I + Tier II - deductions) divided by the standalone risk weighted assets. The standalone regulatory capital (Tier I + Tier II - deductions) amounted to GEL 386.6 million, GEL 409.8 million and GEL 635.3 million as of 31 December 2006, 2007 and 2008, respectively.

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted or derived from the Financial Statements included elsewhere in this Prospectus. Prospective investors should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements.

Average Effective Interest Rates

The following table presents average effective annual interest rates by currencies for the Bank's principal categories of interest-bearing assets and liabilities as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
			(in percentages)			
Assets:						
Amounts due from credit institutions	12.0	5.0	—	3.7	—	2.8
Investment securities:						
- held to maturity	12.0	—	11.9	—	12.4	—
- available-for-sale	15.0	—	—	12.0	—	13.2
Loans to customers	23.0	16.0	23.3	15.9	24.0	17.5
Liabilities:						
Amounts owed to credit institutions	6.0	8.0	10.6	9.7	12.3	9.8
Amounts owed to customers	9.0	8.0	9.7	8.7	11.6	9.8

Deposits and Other Liabilities by Maturity

The following table sets forth an analysis of the Bank's total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities by maturity, and other liabilities and total liabilities as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Three months or less	459,258	1,140,309	1,161,894
More than three months, but less than or equal to one year	178,710	296,700	366,261
More than one year	147,132	833,914	883,159
Total amounts due to credit institutions, amounts due to customers, debt securities issued and other liabilities	**785,100**	**2,270,923**	**2,411,314**
Other liabilities (maturity undefined)	53,368	124,697	128,744
Total liabilities	**838,468**	**2,395,620**	**2,540,058**

The following tables set forth an analysis of the Bank's short-term and long-term loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities (i) in Lari and (ii) as a percentage of total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Short-term(1)	691,336	1,561,706	1,656,899
Long-term(2)	147,132	833,914	883,159
Total amounts due to credit institutions, amounts due to customers, debt securities issued and other liabilities	**838,468**	**2,395,620**	**2,540,058**

Notes:
(1) "Short-term" means due within one year of the relevant date.
(2) "Long-term" means due after more than one year from the relevant date.

	As of 31 December		
	2006	2007	2008
		(in percentages)	
Short-term(1)	82.5	65.2	65.2
Long-term(2)	17.5	34.8	34.8
Total amounts due to credit institutions, amounts due to customers, debt securities issued and other liabilities	**100.0**	**100.0**	**100.0**

Notes:
(1) "Short-term" means due within one year of the relevant date.
(2) "Long-term" means due after more than one year from the relevant date.

Deposits and Other Liabilities by Currency

The following table sets out the Bank's loans and advances from banks, customer accounts, debt securities issued, other liabilities, provisions and income tax liability and total liabilities in Lari and foreign currency as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Amounts due to credit institutions:			
Lari	21,536	50,014	63,901
Foreign currency	202,845	851,781	1,152,821
Total amounts due to credit institutions	**224,381**	**901,795**	**1,216,722**
Amounts due to Customers:			
Lari	159,542	1,085,505	1,152,244
Foreign currency	400,104	269,971	40,880
Total amounts due to Customers	**559,646**	**1,355,476**	**1,193,124**
Debt securities issued:			
Lari	1,073	—	—
Foreign currency	—	4,993	5
Total debt securities issued	**1,073**	**4,993**	**5**
Other liabilities, provisions and income tax liability:			
Lari	28,757	51,785	37,392
Foreign currency	24,611	81,571	92,815
Total other liabilities, provisions and income tax liability	**53,368**	**133,356**	**130,207**
Total liabilities	**838,468**	**2,395,620**	**2,540,058**

The following table sets out the Bank's total liabilities in Lari and foreign currency, each as a percentage of total liabilities.

	As of 31 December		
	2006	2007	2008
		(in percentages)	
Lari	25.2	49.6	49.4
Foreign currency	74.8	50.4	50.6
Total liabilities	**100.0**	**100.0**	**100.0**

The following table sets out the Bank's total loans to retail banking and private banking clients by underlying currency as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans
			(thousands of Lari, except percentages)			
GEL	128,694	42.5%	261,623	35.0%	310,230	28.6%
U.S.$	172,215	56.9%	453,820	60.7%	743,665	68.5%
Euros	1,645	0.5%	10,288	1.4%	15,004	1.4%
GBP	2	0.1%	10	0.0%	8	0.0%
UAH	—	0.0%	22,332	2.9%	15,628	1.3%
BYR	—	0.0%	—	0.0%	955	0.1%
Total loans to retail banking and private banking customers, gross	**302,556**	**100.0%**	**748,073**	**100.0%**	**1,085,490**	**100.0%**

Investment Portfolio

The following table sets out the components of the Bank's available-for-sale securities as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Ministry of Finance Treasury Bills	—	10,745	5,266
Corporate shares	5,534	6,763	21,723
Corporate bonds	4,353	24,879	6,748
Available-for-sale securities	**9,887**	**42,387**	**33,737**

The following table sets out the nominal interest rates and maturities of the Bank's available-for-sale Ministry of Finance Treasury Bills and the Bank's corporate bonds as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	%	Maturity	%	Maturity	%	Maturity
Ministry of Finance Treasury Bills	—	—	9.61	1-4 years	11.95	1-3 years
Corporate Bonds	15.0	2007	14.47	1-6 years	14.41	1-3 years

The following table sets out the components of the Bank's held-to-maturity securities as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
			(thousands of Lari)			
Ministry of Finance Treasury Bills	—	—	70	70	—	—
Certificates of Deposits of Central Banks	140,390	142,976	146,016	149,151	14,826	15,000
State debt securities	46,740	46,770	38,115	37,930	8,019	8,047
Corporate Bonds	114	114	8,263	7,958	—	—
Held-to-maturity securities	**187,244**	**189,860**	**192,464**	**195,109**	**22,845**	**23,047**

The following table sets out the nominal interest rates and maturities of the Bank's held-to-maturity Ministry of Finance Treasury Bills and the Bank's corporate bonds as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	%	Maturity	%	Maturity	%	Maturity
Ministry of Finance Treasury Bills	—	—	13.0	2008	—	—
Corporate Bonds	14.7	2007	9.5	2010	—	—
Certificates of Deposits of Central Banks	11.8	2007	9.8	2008	11.8	2009
State debt securities	13.0	2008	13.0	2009	13.0	2009

Loan Portfolio

As of 31 December 2006, 2007 and 2008, the Bank had GEL 684.8 million, GEL 1,675.7 million and GEL 2,039.0 million (U.S.$1,223.2 million) in loans to clients (net of allowance for impairment losses), representing 56.4%, 56.7% and 62.6% of the Bank's total assets, respectively.

Loans to Clients by Type of Customer

The following table sets out the Bank's total loans to clients (gross of allowance for impairment losses) by type of customer as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Individuals	244,462	699,456	1,079,945
Private entities	434,185	967,023	1,029,008
State entities	27,215	38,131	36,670
Total loans to customers, gross	**705,862**	**1,704,610**	**2,145,623**

Collateralisation

The following table sets out the Bank's total loans to clients (gross of allowance for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 31 December		
	2006	2007	2008
		(thousands of Lari)	
Loans secured by corporate guarantees	19,736	40,713	51,809
Loans collateralised by pledge of shares of other companies	15,837	6,149	4,213
Loans collateralised by pledge of equipment	3,176	72,184	49,809
Loans collateralised by pledge of inventory	187	28,689	10,983
Loans collateralised by Bank of Georgia's promissory notes	835	525	569
Other collateralised loans(1)	639,548	1,349,962	1,718,477
Unsecured loans	26,543	206,388	309,763
Total loans to customers	**705,862**	**1,704,610**	**2,145,623**

Notes:

(1) Other collateralised loans comprises loans to customers collateralised by real estate and loans to customers collateralised by multiple types of collateral.

Loans by Economic Sector

The following table sets out the Bank's loans to clients (gross of allowance for impairment losses), by economic sector as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
			(thousands of Lari, except percentages)			
Trade and services	297,819	42.2	648,086	38.0	667,557	31.1
Individuals	244,462	34.6	699,456	41.0	1,079,945	50.3
Construction and development	78,273	11.1	157,797	9.3	158,702	7.4
Transport and communication	23,899	3.4	8,084	0.5	52,631	2.5
Mining	17,674	2.5	55,053	3.2	34,526	1.6
Agriculture	13,990	2.0	64,567	3.8	20,134	0.9
Energy	10,261	1.5	11,512	0.7	66,145	3.1
Other(1)	19,484	2.7	60,055	3.5	65,983	3.1
Total	**705,862**	**100.0**	**1,704,610**	**100.0**	**2,145,623**	**100.0**

Notes:

(1) Other comprises loans to customers with diverse business activities not directly attributable to a specific economic sector.

Loans by Currency

The following table sets out the Bank's total loans to clients (gross of allowance for impairment losses), by currency as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(thousands of Lari, except percentages)					
GEL	212,985	30.2	508,127	29.8	534,258	24.9
Other currencies (freely convertible)	492,877	69.8	1,056,745	62.0	1,494,068	69.6
Other currencies (non convertible)	—	—	139,738	8.2	117,297	5.5
Total loans to customers, gross	**705,862**	**100.0**	**1,704,610**	**100.0**	**2,145,623**	**100.0**

Loans by Maturity

The following table sets out the maturity structure of the Bank's total loans to clients (gross of allowance for impairment losses) as of the dates indicated.

	As of 31 December					
	2006		2007		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(thousands of Lari, except percentages)					
On demand and up to one month	105,616	15.0	198,884	11.7	217,248	10.1
One to three months	95,040	13.5	148,110	8.7	229,681	10.7
Three months to one year	198,629	28.1	490,265	28.8	459,359	21.4
More than one year	282,716	40.1	847,824	49.7	1,218,883	56.8
Overdue	23,861	3.3	19,527	1.1	20,452	1.0
Total loans to customers, gross	**705,862**	**100.0**	**1,704,610**	**100.0**	**2,145,623**	**100.0**

As of 31 December 2008, loans due within one year or earlier represented 42.2% of the Bank's customer loan portfolio (gross of allowance for impairment losses) compared with 49.2% as of 31 December 2007.

Geographical Concentration of Loans

The Bank has a significant geographical concentration of loans issued to borrowers in one geographical region. The Bank's loans to clients in the Tbilisi region represented approximately 83.2%, 86.0% and 86.3% of the Bank's total loan portfolio as of 31 December 2006, 2007 and 2008, respectively.

Loans by Amount and Number of Borrowers

As of 31 December 2006, 2007 and 2008, the exposure of the Bank to its ten largest third-party borrowers amounted to GEL 103.6 million, GEL 227.0 million and GEL 230.7 million (U.S.$137.6 million), representing 15%, 13% and 11% of total loans to clients (in each case gross of allowance for impairment losses), respectively.

The following table sets out information on the Bank's ten largest borrowers (based on exposure) as of 31 December 2008.

Rank by borrower exposure	**Exposure size (net of allowance for impairment losses)** (*Lari*)	**Industry sector in which borrower operates**
1	27,916,352	Trade and services
2	27,637,088	Energy
3	26,394,626	Energy
4	23,943,678	Trade and services
5	33,920,208	Trade and services
6	20,748,252	Other
7	19,452,908	Mining
8	18,870,925	Trade and services
9	17,295,832	Energy
10	14,553,031	Transports and communication
Total	**230,732,900**	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of Bank of Georgia principally covers the years ended 31 December 2006, 2007 and 2008. Unless otherwise specified, the financial information presented in this discussion has been extracted and/or derived from the Financial Statements. This section should be read in conjunction with the Financial Statements and the notes thereto and the other financial information included elsewhere in the Prospectus.

Solely for the convenience of the reader, certain information extracted or derived from the Financial Statements included herein has been converted into U.S. dollars using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The amounts translated into U.S. dollars should not be construed as representations that the Lari amounts have been or could be converted to U.S. dollars at that or any other rate or as being representative of the U.S. dollar amounts that would have resulted if the Bank reported in U.S. dollars.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements".

Overview

The Bank's two principal business areas are retail banking and corporate banking. The Bank's retail banking activities currently include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans and overdrafts); deposit accounts (including current accounts, term deposits and demand deposits); credit cards and other bank card products and services; ATM services; Internet; telephone and SMS banking; utilities and other recurring payments; money transfers and remittances; standing orders; direct debit services for wages and other monetary entitlements; and other retail banking services. The Bank's corporate banking products and services consist primarily of deposit accounts, account administration and cash management services, payroll services and corporate lending, as well as a range of trade finance operations, foreign exchange transactions and leasing. The Bank provides loans and other credit-related products in Lari and foreign currencies, principally U.S. dollars, to its corporate clients, including overdraft facilities, revolving lines of credit and bank guarantees. The Bank's corporate clients include large corporations, small and medium-size companies and governmental entities. The Bank provides brokerage and investment banking services in the Principal Markets through its subsidiaries, GTS, GTSU and GTSB. In addition, the Bank provides insurance, leasing, wealth and asset management and card processing services.

For management purposes, the Bank is organised into seven segments: retail banking, corporate banking, wealth management, insurance, brokerage, asset management and a corporate centre (which provides back-office services to all other business segments). For financial reporting purposes, the Bank combines its brokerage, asset and wealth management segments (see Note 6 to the Financial Statements for more detail). The Bank's subsidiaries, BG Bank and BNB offer retail and corporate banking services in Ukraine and Belarus, respectively. The Bank offers its insurance products through Aldagi BCI and conducts brokerage and investment banking services through GTS, GTSU and GTSB and its asset management services through GTAM and Liberty Consumer (formerly Galt & Taggart Capital).

As of 30 June 2009, Bank of Georgia was the largest bank in Georgia based on total equity (with a 39.0% market share), total assets (with a 33.6% market share), total loans (with a 31.5% market share) and total deposits (with a 27.5% market share), according to information published by the NBG/FSA based on standalone financial information filed with FSA by Georgian banks. These market shares compare to a 40.0% market share by total equity, a 32.9% market share by total assets, a 32.9% market share by total loans and a 28.8% market share by total deposits as of 31 December 2008 and a 34.1% market share by total equity, 35.2% market share by total assets, a 32.7% market share by total loans and a 31.4% market share by total deposits as of 31 December 2007.

Summary of Acquisitions

The Bank made a number of acquisitions pursuant to its then current strategy to expand and diversify its business during the periods under review.

In February 2006, Bank of Georgia acquired the assets and liabilities of Intellect Bank, a Georgian commercial bank, which was experiencing financial difficulties and liquidity problems. In order to avoid the possible bankruptcy of Intellect Bank, the NBG, which was assigned as the temporary administrator of Intellect Bank, conducted a sale of the bank by auction and Bank of Georgia was the winning bidder. As part of the transaction the NBG granted a two-year GEL 20.0 million facility to Bank of Georgia and granted a 12-month waiver to Bank of Georgia in respect of breaches of the NBG's prudential ratios resulting from the acquisition of Intellect Bank. The fair value of the acquired assets that was recognised by the Bank on acquisition was GEL 28.0 million and the fair value of the acquired liabilities that was recognised by the Bank on acquisition was GEL 47.4 million. The acquisition of these assets and liabilities included an acquisition of goodwill (based on a provisional price allocation) in the amount of GEL 19.4 million. The results of Intellect Bank have been consolidated in the Bank's Financial Statements since February 2006.

In May 2007, Bank of Georgia acquired JSC Galt & Taggart Bank (formerly JSC Cascade Bank), a small Georgian commercial bank. The acquisition of JSC Galt & Taggart Bank resulted in the acquisition of goodwill in the amount of GEL 0.6 million. The results of JSC Galt & Taggart Bank have been consolidated in the Bank's Financial Statements since May 2007. In June 2008, JSC Galt & Taggart Bank was merged with the Bank and ceased to exist as a legal entity. The Bank became the legal successor to all of Galt & Taggart Bank's assets and liabilities.

In January 2007, Bank of Georgia acquired a 9.92% equity interest in BG Bank (formerly JSC Universal Bank of Development & Partnership), a mid-sized Ukrainian commercial bank. In October 2007, Bank of Georgia acquired an additional 88.85% equity interest, resulting in a total equity interest in BG Bank of 98.77%. The acquisition of BG Bank resulted in the acquisition of goodwill in the amount of GEL 68.0 million. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares, each with a nominal value of UAH 1.00 per share. Following the capital increase, Bank of Georgia's ownership interest in BG Bank increased to 99.35%. The results of BG Bank have been consolidated in the Bank's Financial Statements since October 2007.

In July 2008, Bank of Georgia completed the acquisition (indirectly through a Belarus legal entity) of a 70% equity interest in BNB, a Belarus commercial bank and retained an option to acquire the remaining 30% equity interest in BNB within three years. The acquisition of BNB resulted in the acquisition of goodwill in the amount of GEL 23.4 million. The results of BNB have been consolidated in the Bank's Financial Statements since July 2008.

Factors Affecting Results of Operations

Key factors affecting the Bank's results of operations are discussed below.

Global and Local Economic and Market Conditions

The global economy has entered the most severe downturn for 80 years, with the financial services industry facing extraordinary turbulence. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions, including the Bank, under considerable pressure. Many developed economies have entered recession and growth has slowed in many emerging economies, including the Principal Markets, with serious adverse consequences for asset values, employment, consumer confidence and levels of economic activity.

The global financial crisis has affected Georgia through economic slowdown, as well as a decrease in exports and private capital inflows. Based on preliminary statistics provided by the Department of Statistics, real GDP growth year-on-year was 2.1% from 2007 to 2008 as compared to 12.3% from 2006 to 2007. GDP growth is expected to decrease to negative 1.5% from 2008 to 2009, according to estimates published by the Government of Georgia. FDI in 2008 decreased by 28% compared to 2007 and is slightly higher than the level it was in 2006. The economic slowdown in the second half of 2008 had a negative impact on the results of operations of the banking sectors in the Principal Markets as a whole. In particular, the growth in the size of the Bank's loan portfolio slowed, the quality of the loan portfolio deteriorated, customer deposits decreased, the debt capital markets were effectively closed to banks in emerging markets and IFIs became the principal sources of wholesale funding for the Bank. In addition, the global economic slowdown also negatively affected GTS's business, which suffered losses on its proprietary book in the second half of 2008.

Effect of Depreciation of Currencies – Lari and Hryvnia

Partly in response to the increased demand for foreign currencies during the months following the Conflict and partly as a result of the downturn in the global economy and its impact on the Georgian economy, the NBG allowed the Lari to depreciate by 16% at the beginning of November 2008. Such depreciation principally resulted in foreign exchange losses at the subsidiary level as well as a deterioration in Bank of Georgia's capital adequacy ratios.

The deterioration of the economic environment in Ukraine and the devaluation of the Hryvnia by approximately 20% against the Lari in the second half of 2008 negatively affected the Bank's shareholders' equity upon consolidation in the Financial Statements.

The Banking Industry in the Principal Markets

The Bank operates in the Georgian, Ukrainian and Belarus banking sectors, offering services to both retail and corporate clients. According to statistics published by the NBG, NBU and National Bank of Belarus, the total assets of the Georgian, Ukrainian and Belarus banking sectors reached U.S.$5.3 billion, U.S.$99.3 billion and U.S.$30.8 billion, respectively, in 2008. While total assets of the banking sectors in the Principal Markets have been steadily increasing in recent years, the size of banking assets in each of the Principal Markets relative to the size of their respective economies is still smaller than in more developed economies.

Retail banking is an increasingly important part of the Bank's business. Given the relatively low level of retail consumer indebtedness in the Principal Markets as compared to Western European countries, the retail banking industry in the Principal Markets is underdeveloped and has growth potential. Because of the relatively short history of the retail banking sector in the Principal Markets, a significant portion of the retail loan portfolios of the banks in the Principal Markets have not completed their seasoning cycles or are still at an early stage. As a result, the historical and current non-performing loan ratios may not be indicative of the underlying asset quality.

Non-Performing Loans ("NPLs") and Impairment Losses

The Bank's loan book quality was negatively affected by the economic slowdown in the Principal Markets. As of 31 December 2008, NPLs (defined as loans more than 90 days overdue including principal and interest payment) accounted for 2.9% of total loans compared to 1.4% in 2007 and 2.3% in 2006. As of 31 December 2008, the Bank's net allowance for impairment losses on loans to clients was GEL 106.6 million, the ratio of the Bank's allowance for impairment losses to total gross loans to clients was 5.0%, and the ratio of the Bank's allowance for impairment recognised losses to impaired loans was 38.3%. The Bank's net allowance for loan impairment losses increased from the prior year due to an increase in estimated losses predominantly from consumer and commercial loans due to the impact of the weakening of the economic environment on the Bank's clients including their ability to service their loans.

Decreased Deposits

The value of the Bank's retail and corporate deposits decreased by approximately 12.0% in 2008 compared to 2007. The decrease of deposits in Georgia was primarily the result of system-wide retail and corporate customer deposit withdrawals from banks in Georgia including the Bank during the Conflict and macroeconomic slowdown. The decrease of deposits in Ukraine was attributable to the slowdown of the economy in Ukraine as well as the devaluation of the Ukrainian Hryvnia against the Georgian Lari, which led to a reduction in the total amount of customer deposits on consolidation of BG's results with the Bank's.

Consolidated Results of Operations

The following table sets out the principal components of the Bank's consolidated net income for the periods indicated.

	For the year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Interest income	100,271	242,304	403,939	242,315
Interest expense	(33,549)	(112,085)	(183,099)	(109,837)
Net interest income before impairment of interest earning assets	**66,722**	**130,219**	**220,840**	**132,478**
Impairment of interest earning assets	(13,830)	(18,117)	(124,147)	(74,473)
Net interest income after impairment of interest earning assets	**52,892**	**112,102**	**96,693**	**58,005**
Fee and commissions income	28,139	48,358	63,503	38,094
Fee and commissions expense	(3,453)	(6,610)	(13,534)	(8,119)
Net fees and commissions income	**24,686**	**41,748**	**49,969**	**29,975**
Other non-interest income	**22,424**	**72,646**	**91,756**	**55,043**
Other non-interest expense	**(65,099)**	**(136,784)**	**(239,222)**	**(143,504)**
Income (loss) before income tax expense	**34,903**	**89,712**	**(804)**	**(481)**
Net income for the period	**26,772**	**75,642**	**174**	**104**
Earnings per share	**1.622**	**2.958**	**0.129**	**0.077**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Interest Income

Interest income principally comprises interest income on loans to clients, interest income on the Bank's securities portfolio, interest income on amounts due from credit institutions and finance lease receivables. The following table sets out the principal components of the Bank's interest income for the periods indicated.

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Interest income attributable to:				
Loans to customers	92,612	203,759	363,013	217,764
Investment securities........................	1,206	24,467	23,184	13,908
Amounts due from credit institutions	5,310	9,942	10,732	6,438
Finance lease receivables.................	1,143	4,136	7,010	4,205
Total interest income	**100,271**	**242,304**	**403,939**	**242,315**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The following table sets out the amounts of the Bank's interest-bearing assets by type as of the dates indicated:

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Interest-bearing assets				
Cash and cash equivalents	108,045	405,770	397,591	238,507
Amounts due from credit institutions	65,475	154,560	99,633	59,768
Loans to customers, net	684,842	1,675,681	2,039,022	1,223,169
Net investment in lease.................	9,091	46,674	41,605	24,958
Investment securities.....................	197,131	234,851	56,582	33,942
Total interest-bearing assets	**1,064,584**	**2,517,536**	**2,634,433**	**1,580,344**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Interest income increased by 141.6% from GEL 100.3 million in 2006 to GEL 242.3 million in 2007 and increased by 66.7% to GEL 403.9 million in 2008. The increases were primarily attributable to increases in interest income on loans to clients.

Interest income on loans to clients increased by 120.0% from GEL 92.6 million in 2006 to GEL 203.8 million in 2007 and increased by 78.2% to GEL 363.0 million in 2008. The increases in interest income on loans to clients were primarily the result of the growth in the Bank's net loans to clients. The size of the Bank's net loans to clients increased by 144.7% from GEL 684.8 million as of 31 December 2006 to GEL 1,675.7 million as of 31 December 2007 and increased by 21.7% to GEL 2,039.0 million as of 31 December 2008. The sharp increase from 2006 to 2007 was principally the result of increases in demand for retail and corporate loans in line with continued improvement in the Georgian economy and the acquisition of BG Bank. The decline of the Bank's loan portfolio during the second half of 2008 was due to the slowdown in lending activity in the Georgian banking sector as a result of the Conflict and the global economic slowdown. The effective average interest rates on the Bank's loans to clients were 23.0%, 23.3% and 24.0% for GEL loans, and 16.0%, 15.9%, and 17.5% for foreign currency loans, in 2006, 2007 and 2008, respectively.

Interest income on the Bank's investment securities increased from GEL 1.2 million in 2006 to GEL 24.5 million in 2007 and decreased by 5.2% to GEL 23.2 million in 2008. Annual fluctuations in interest income on investment securities are mainly attributable to changes in market interest yields, changes in the composition of the portfolio and fluctuations of the amount of securities held throughout the year. Interest income on the Bank's investment securities in 2007 was higher than in 2006 mostly due to a significant increase in average balance certificates of deposit issued by the NBG (most of which were acquired towards the end of 2006) and Ministry of Finance Treasury Bills. The size of the Bank's investment securities increased by 19.1% from GEL 197.1 million as of 31 December 2006 to GEL 234.9 million as of 31 December 2007. The Bank's investment securities comprised certificates of deposits issued by the NBG and Ministry of Finance treasury bills as of each date and corporate bonds as of 31 December 2007 and 2008. Interest income on the Bank's investment securities slightly decreased in 2008 as compared to 2007 due to a 75.9% decrease in the size of the Bank's investment securities from GEL 234.9 million as of 31 December 2007 to GEL 56.6 million as of 31 December 2008. This decrease was mainly attributable to a lower average amount of securities held during 2008 compared with 2007.

Interest earned on amounts due from credit institutions increased by 87.2% from GEL 5.3 million in 2006 to GEL 9.9 million in 2007 and increased by 7.9% to GEL 10.7 million in 2008. Amounts due from credit institutions in the years discussed principally comprised obligatory reserves with central banks, time deposits with effective maturity of more than 90 days and inter-bank loan receivables. The increase in interest income on amounts due from credit institutions from 2006 to 2007 was primarily the result of the growth in the Bank's amounts due from credit institutions. The size of the Bank's amounts due from credit institutions increased by 136.1% from GEL 65.5 million as of 31 December 2006 to GEL 154.6 million as of 31 December 2007. The decrease in interest income on amounts due from credit institutions from 2007 to 2008 was due to a 35.5% decrease in the size of amounts due from credit institutions to GEL 99.6 million as of 31 December 2008, principally as a result of deposit outflow, followed by a reduction of the obligatory minimum reserve requirement for client deposits by the NBG from 13.0% to 5.0% in October 2008.

Interest Expense

Interest expense comprises interest expense on amounts owed to clients, interest expense on amounts owed to credit institutions and interest expense on debt securities issued.

The following table sets out the components of the Bank's interest expense for the periods indicated:

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Interest expense attributable to:				
Amounts due to customers....................	(19,245)	(53,419)	(85,358)	(51,205)
Amounts due to credit institutions	(14,128)	(58,072)	(97,035)	(58,209)
Debt securities issued............................	(176)	(594)	(706)	(423)
Total interest expense	**(33,549)**	**(112,085)**	**(183,099)**	**(109,837)**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The following table sets out the amounts of the Bank's interest-bearing liabilities as of the dates indicated:

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Interest-bearing liabilities				
Amounts due to credit institutions	224,381	901,795	1,216,722	729,887
Amounts due to customers............	559,646	1,355,476	1,193,124	715,731
Debt securities issued....................	1,073	4,993	5	3
Total interest-bearing liabilities.......................................	**785,100**	**2,262,264**	**2,409,851**	**1,445,621**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Interest expense increased by 234.1% from GEL 33.5 million in 2006 to GEL 112.1 million in 2007 and increased by 63.4% to GEL 183.1 million in 2008. The increases were primarily attributable to increases in interest expenses on amounts due to clients and amounts due to credit institutions.

The increase in interest expense on amounts due to clients from 2006 to 2007 was principally due to an increase in average amounts due to clients and to a lesser extent, due to an increase in average interest rates on both current accounts and time deposits. The size of the Bank's amounts due to customers increased by 142.2% from GEL 559.6 million as of 31 December 2006 to GEL 1,355.5 million as of 31 December 2007 as a result of significant increases in current accounts and time deposits. The increase in interest expense on amounts due to clients from 2007 and 2008 was principally due to an increase in average interest rates on both current accounts and time deposits due to competitive pressures.

The increase in interest expense on amounts due to credit institutions over all three years was principally due to an increase in average amounts due to credit institutions. The size of the Bank's amounts due to credit institutions increased by 301.9% from GEL 224.4 million as of 31 December 2006 to GEL 901.8 million as of 31 December 2007 and increased by 34.9% to GEL 1,216.7 as of 31 December 2008. The increase in amounts due to credit institutions from 2006 to 2007 was primarily the result of significant increases in borrowings from international credit institutions and the issuance of Eurobonds in order to fund the increase in the Bank's loan portfolio. The increase in amounts due to credit institutions from 2007 to 2008 was due to a moderate increase in borrowings from international credit institutions as well as inter-bank time deposits and loans.

The effective average interest rates paid on interest-bearing customer account balances in Lari for 2006, 2007 and 2008 were 9.0%, 9.7% and 11.6%, respectively. The average interest rates paid on interest bearing customer balances in foreign currencies (mainly U.S. dollars) for 2006, 2007 and 2008 were 8.0%, 8.7% and 9.8%, respectively. Foreign currency customer account balances at 31 December 2006, 2007 and 2008 accounted for 68.9%, 66.9% and 70.4% respectively, of the total balances of customer accounts.

Net Interest Income Before Impairment of Interest Earning Assets

Net interest income before impairment of interest earning assets increased by 95.2% from GEL 66.7 million in 2006 to GEL 130.2 million in 2007 and increased by 69.6% to GEL 220.8 million in 2008. The increases over the three years were due to the larger increase in interest income relative to interest expense between the two years, which in turn was primarily due to growth in the size of the Bank's loan portfolio and increased effective average interest rates on loans to clients, while the Bank's cost of funding did not increase to the same extent.

The Bank's net interest margin is defined as net interest income (before impairment of interest earning assets) divided by average interest-earning assets for the year or period, as the case may be. Average interest-earning assets is defined as the average of interest-earning assets at the beginning and the end of the relevant year or period. Interest earning assets include time deposits with credit institutions with effective maturities of up to 90 days, amounts due from credit institutions, minimum lease payments receivable, investment securities and gross loans. The Bank's net interest margin was 10.4%, 8.6% and 10.3% in 2006, 2007 and 2008, respectively. The decline of net interest margin in 2007 was mostly due to the high liquidity maintained during the year and the negative carry resulting from wholesale funding attracted during 2007. The growth of net interest margin in 2008 was due to a larger proportion of higher yielding retail loans in the Bank's total loan portfolio in 2008 and lower growth rate of total average interest earning assets during the year.

Impairment of Interest Earning Assets

Impairment of interest earning assets increased by 31.0% from GEL 13.8 million in 2006 to GEL 18.1 million in 2007 and increased by 585.3% to GEL 124.1 million in 2008. The increase from 2006 to 2007 was primarily due to the growth of the loan portfolio during the year. The increase from 2007 to 2008 was due to extraordinary impairment charges on the Bank's loan book in Georgia, largely due to the Bank's assessment of the impact of the Conflict and the macroeconomic downturn on its clients in Georgia and the impairment charges on the loan book of BG Bank in Ukraine, as a result of deteriorating market conditions in Ukraine in the second half of 2008. Allowance for loan impairment was GEL 21.0 million (or 3.0% of gross total loans), GEL 28.9 million (or 1.7% of gross total loans) and GEL 106.6 million (or 5.0% of total gross loans) as of 31 December 2006, 2007 and 2008, respectively.

See "Lending Policies and Procedures - Assessments of Provisions for Loan Impairment".

Net Interest Income After Impairment of Interest Earning Assets

As a result of the foregoing factors, the Bank's net interest income after impairment of interest earning assets increased by 111.9% from GEL 52.9 million in 2006 to GEL 112.1 million in 2007 and decreased by 13.7% to GEL 96.7 million in 2008.

Net Fees and Commissions Income

Net fees and commissions income comprise fee and commission income from settlement operations, guarantees and letters of credit, cash operations, brokerage service fees, currency conversion operations, advisory and other fees and commissions income and other fees and commission income, less fees and commissions expenses from insurance brokerage services, settlement operations, guarantees and letters of credit, currency conversion operations, cash operations and other fees and commissions expenses.

The following table shows the principal components of the Bank's net fees and commissions income.

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Settlement operations	15,074	25,488	33,659	20,191
Guarantees and letters of credit	4,713	7,548	8,625	5,174
Cash operations	4,257	6,079	6,947	4,167
Brokerage service fee	2,632	3,448	2,626	1,575
Advisory	178	215	2,032	1,219
Currency conversion operations	824	1,284	1,766	1,059
Other	461	4,296	7,848	4,709
Fees and commissions income	**28,139**	**48,358**	**63,503**	**38,094**
Insurance brokerage service fees	—	(2,103)	(5,965)	(3,578)
Settlement operations	(1,912)	(2,692)	(3,974)	(2,384)
Guarantees and letters of credit	(1,257)	(1,127)	(2,038)	(1,223)
Cash operations	(81)	(162)	(430)	(258)
Currency conversion operations	(158)	(253)	(564)	(338)
Other	(45)	(273)	(563)	(338)
Fees and commissions expense	**(3,453)**	**(6,610)**	**(13,534)**	**(8,119)**
Net fees and commissions income	**24,686**	**41,748**	**49,969**	**29,975**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Net fees and commissions income increased by 69.1% from GEL 24.7 million in 2006 to GEL 41.7 million in 2007 and increased by 19.7% to GEL 50.0 million in 2008. The increase in net fees and commissions income from 2006 to 2007 was due to increases in settlement operations, guarantees and letters of credit, cash operations, currency conversion operations and "other" (comprising other banking operations, such as commissions from cash collection services and plastic card data processing, deposit box fees, insurance commissions and other income earned by non-banking subsidiaries of the Bank), which were reflective of an increase in the general volume of banking operations due to general economic growth in Georgia. The increase in net fees and commissions income from 2007 to 2008 was the result of increases in settlement operations, advisory fees (primarily comprising asset management fees) and "other" (comprising other banking operations, such as commissions from cash collection services and plastic card data processing, deposit box fees, insurance commissions and other income earned by non-banking subsidiaries of the Bank). Fees and commissions expense increased by 91.4% from GEL 3.5 million in 2006 to GEL 6.6 million in 2007 and increased by 104.8% to GEL 13.5 million in 2008. The increase in fees and commissions expense from 2006 to 2007 was due to the introduction of insurance brokerage service fees as a result of the Aldagi acquisition. The increase in fees and commission expense from 2007 to 2008 was principally the result of significant growth of the retail insurance business and increased growth in documentary operations, such as letters of credits and guarantees, which entail payments of fees and commission to third parties.

Other Non-Interest Income

Other non-interest income comprises gains less losses from trading securities, investment securities available for sale, revaluation of investment properties, associates, foreign currencies, net insurance premiums earned and other operating income.

The following table sets out certain information on the Bank's other non-interest income for the periods indicated:

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Gains (losses) from trading securities	—	2,930	(5,447)	(3,268)
Gains from investment securities available for sale	—	2,481	513	308
Gains (losses) from revaluation of investment properties	—	16,362	(389)	(233)
Gains less losses from foreign currencies	11,942	26,710	47,134	28,275
Net insurance premiums earned	6,260	14,260	35,911	21,542
Other operating income	4,222	9,766	14,747	8,846
Share of (loss) profit of associates	—	137	(713)	(427)
Other non-interest income	**22,424**	**72,646**	**91,756**	**55,043**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The Bank's other non-interest income increased by 224.0% from GEL 22.4 million in 2006 to GEL 72.6 million in 2007 and increased by 26.3% to GEL 91.8 million in 2008. The increase in other non-interest income from 2006 to 2007 was primarily due to gains from trading securities, investment securities and the revaluation of investment properties as well as an increase in the volume of the Bank's foreign currency transactions, net insurance premiums and "other" (comprising other banking operations, principally extraordinary gains from repossessed and other assets, commissions from cash collection services, plastic card data processing, insurance commissions and other income earned by non-banking subsidiaries of the Bank). The increase in other non-interest income from 2007 to 2008 was a result of increases in the volume of the Bank's foreign currency transactions, net insurance premiums and "other" (comprising other banking operations, principally extraordinary gains from repossessed and other assets, commissions from cash collection services, plastic card data processing, insurance commissions and other income earned by non-banking subsidiaries of the Bank), which were offset by losses from trading securities and the revaluation of investment properties.

Gains Less Losses from Trading Securities

The Bank's trading securities mostly comprise corporate shares and bonds of different Ukrainian corporates held by GTS. The Bank began proprietary trading in 2007. In 2007, the Bank earned GEL 2.9 million from such proprietary trading as a result of increases in the value of corporate shares traded in Ukraine. In 2008, the Bank suffered a net loss from trading securities of GEL 5.4 million principally due to the reduction in value of its portfolio of corporate shares as a result of the global financial crisis.

Gains from Investment Securities Available For Sale

The Bank's investment securities available for sale comprise investments in shares of Georgian corporates held principally by GTS and Liberty Consumer. The Bank began offering investment securities to its clients in 2007 and earned GEL 2.5 million from such sales during that year. In 2008, net gains from investment securities available for sale decreased by 79.3% to GEL 0.5 million due to the global financial crisis.

Gains Less Losses from Revaluation of Investment Properties

The Bank's investment properties comprise commercial real estate and land owned for development purposes. In 2006, no gains or losses resulted from the revaluation of investment properties mostly owned by the Bank's subsidiaries. In 2007, the Bank earned GEL 16.4 million from the revaluation of such properties. In 2008, the Bank posted a net loss of GEL 0.4 million from the revaluation of investment properties principally as a result of declining real estate prices driven by the economic slowdown.

Gains Less Losses from Foreign Currencies

Gains less losses arising from foreign currency dealing and from translation of foreign currency-denominated assets and liabilities are reported in the consolidated statement of operations as gains less losses from foreign currencies. The Bank's gains less losses from foreign currency dealing are substantially all attributable to trading on behalf of the Bank's clients as opposed to proprietary trading on the Bank's own account. Net gains from foreign currencies increased by 123.7% from GEL 11.9 million in 2006 to GEL 26.7 million in 2007 and increased by 76.5% to GEL 47.1 million in 2008. The increases in gains from foreign currency transactions across all periods were largely a result of increases in the volume of the Bank's foreign currency transactions.

Net Insurance Premiums Earned

Net insurance premiums earned comprises insurance premiums received from clients of the Bank's Aldagi BCI subsidiary. Net insurance premiums earned increased by 127.8% from GEL 6.3 million in 2006 to GEL 14.3 million in 2007 and increased by 151.8% to GEL 35.9 million in 2008. The increase in net insurance premiums earned from 2006 to 2007 was a result of the acquisition of Aldagi in December 2006. The increase in net insurance premiums earned from 2007 to 2008 was due to an increase in the amount and range of insurance products sold to corporate and retail clients, which was in turn in part attributable to general growth in the insurance market in Georgia.

Other Operating Income

Other operating income comprises other banking operations, such as commissions from cash collection services, plastic card data processing, insurance commissions and other income earned by non-banking subsidiaries of the Bank. Other operating income increased by 131.3% from GEL 4.2 million in 2006 to GEL 9.8 million in 2007 and increased by 51.0% to GEL 14.7 million in 2008. The increase in other operating income over the periods was attributable to the increase in the volume of general banking operations, an increase in brokerage revenue and other revenue from the Bank's consolidated subsidiaries as well as an increase in the Bank's gross brokerage fees and gross fee income from leasing and card processing operations.

Other Non-Interest Expense

Other non-interest expense comprises salaries and other employee benefits, administration expenses, depreciation, amortisation and impairment, net insurance claims incurred, impairment (charge)/reversal of other assets and provisions and other operating expenses.

The following table shows the composition of the Bank's other non-interest expense for the periods as indicated:

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Salaries and other employee benefits	(33,316)	(75,639)	(108,767)	(65,247)
General and administration expenses	(20,649)	(36,164)	(68,649)	(41,181)
Depreciation, amortisation and impairment	(5,887)	(9,863)	(20,532)	(12,317)
Net insurance claims incurred	(1,827)	(8,799)	(26,895)	(16,134)
Impairment (charge) reversal of other assets and provisions	170	365	(4,551)	(2,730)
Other operating expenses	(3,590)	(6,684)	(9,828)	(5,895)
Other non-interest expense	**(65,099)**	**(136,784)**	**(239,222)**	**(143,504)**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The Bank's other non-interest expense increased by 110.1% from GEL 65.1 million in 2006 to GEL 136.8 million in 2007 and increased by 74.9% to GEL 239.2 million in 2008. The increase in non-interest expense over the periods was principally due to increases in salaries and employee benefits, administration expenses (including, among others, occupancy and rent, marketing and advertising, legal and other professional services, communication, repairs and maintenance, operating taxes and insurance), depreciation, amortisation and impairment, insurance claims mostly relating to Aldagi BCI's participation in the state healthcare programme for socially vulnerable citizens and prisoners and other operating expenses (including charitable donations, insurance commissions expenses and other operating expenses incurred by non-banking subsidiaries of the Bank involved in certain of the Bank's ancillary businesses). In 2008, the Bank recorded an impairment charge of GEL 4.6 million relating principally to an increase in provisions for credit risks associated with guarantees due to a deterioration in the overall quality of the Bank's total loan portfolio.

Salaries and Other Employee Benefits

Salaries and other employee benefits include salaries and bonuses as well as social security costs. Salaries and other employee benefits increased by 127.0% from GEL 33.3 million in 2006 to GEL 75.6 million in 2007 and increased by 43.8% to GEL 108.8 million in 2008. The increases in salaries and other employee benefits costs across all periods discussed were largely attributable to increases in the number of employees of Bank of Georgia and its subsidiaries through the first half of 2008 and increases in the levels of employee salaries as well as increased bonuses paid to employees. In December 2008, as part of the reorganisation of its retail banking business in Georgia, the Bank reduced its headcount by 1,085 employees. The Bank had 2,226, 4,459 and 4,979 employees as of 31 December 2006, 2007 and 2008, respectively. On 6 November 2006, the Bank established the EECP. For a description of the EECP, see "Management and Employees—Executive Equity Compensation Plan".

Administration Expenses

Administration expenses include expenses for occupancy and rent, security, marketing and advertising, communications, operating taxes, legal and other professional services, office supplies, repairs and maintenance, personnel training and recruitment, business trips, corporate hospitality and entertainment, banking services, insurance expenses and other administration expenses. Administration expenses increased by 75.1% from GEL 20.6 million in 2006 to GEL 36.2 million in 2007 and increased by 89.8% to GEL 68.6 million in 2008. The increases in administration expenses over all of the periods discussed were due to general growth in the Bank's business, including increases in the number of branches. Bank of Georgia had 100, 117 and 151 branches as of 31 December 2006, 2007 and 2008, respectively.

Depreciation, Amortisation and Impairment

Depreciation, amortisation and impairment increased by 67.5% from GEL 5.9 million in 2006 to GEL 9.9 million in 2007 and increased by 108.2% to GEL 20.5 million in 2008. The increases over all of the periods discussed were attributable to significant additions to the Bank's property and equipment through purchases of new assets, revaluation gains recorded as well as the acquisition of new subsidiaries.

Net Insurance Claims Incurred

Net insurance claims incurred principally comprise health insurance by retail and corporate policy holders. Net insurance claims incurred increased by 381.6% from GEL 1.8 million in 2006 to GEL 8.8 million in 2007 and increased by 205.7% to GEL 26.9 million in 2008. The increase in net insurance claims incurred over the periods was due to organic growth in the Bank's insurance business, as well as the acquisition of Aldagi in December 2006. The growth in 2007 and 2008 was mostly due to Aldagi BCI's participation in the state health care programme for socially vulnerable citizens and school teachers.

Impairment (Charge)/Reversal of Other Assets and Provisions

Impairment (charge)/reversal of other assets and provisions comprises allowances for impairment of investments in associates, other assets and guarantees and commitments and reversals of such impairment charges. Impairment reversals of other assets and provisions increased by 114.7% from GEL 0.2 million in 2006 to GEL 0.4 million in 2007. In 2008, the Bank incurred an impairment charge of GEL 4.5 million due to an increase in provisions for credit risks associated with guarantees due to a deterioration in the overall quality of the Bank's total loan portfolio.

Other Operating Expenses

Other operating expenses comprise charitable donations, insurance commissions expenses, other operating expenses incurred by non-banking subsidiaries of the Bank involved in certain of the Bank's ancillary businesses and other miscellaneous operating expenses. Other operating expenses increased by 86.2% from GEL 3.6 million in 2006 to GEL 6.7 million in 2007 and increased by 47.0% to GEL 9.8 million in 2008. The increase from 2006 to 2007 was primarily the result of the acquisition of non-banking subsidiaries as part of the Bank's asset management business and the increase from 2007 to 2008 was principally due to the establishment by the Bank of a charity fund to support the victims of the Conflict.

Income (Loss) Before Income Tax Expense

The Bank generated income before income tax expense of GEL 34.9 million and GEL 89.7 million in 2006 and 2007, respectively, and made a loss before income tax expense of GEL 0.8 million in 2008. The 157% increase from 2006 to 2007 was largely attributable to increased interest income (which was in turn principally due to significant growth in the Bank's loan portfolio), net interest income after impairment charge, net fee and commission income and other non-interest income resulting from significant growth of gains from revaluation of investment properties, gains from trading and investment securities and gains less losses from foreign currencies. The loss in 2008 was primarily due to significant impairment of interest earning assets due to the Conflict and the economic slowdown.

Income Tax Benefit (Expense)

The Bank had income tax expenses of GEL 8.1 million and GEL 14.1 million in 2006 and 2007, respectively and an income tax benefit of GEL 1.0 million in 2008. The income tax expenses in 2006 and 2007 were attributable to pre-tax income principally generated in Georgia whereas the income tax benefit in 2008 was due to pre-tax losses principally generated outside Georgia, where statutory tax rates range from 25% to 28%. Non tax deductible expenses below comprise impairment provisions, losses on asset disposals and other costs that are not considered by the tax authorities to be incurred in deriving taxable income.

	Year ended 31 December			
	2006	**2007**	**2008**	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Income (loss) before taxation	**34,903**	**89,712**	**(804)**	**(482)**
Statutory tax rate	20%	20%	15%	15%
Theoretical income tax expense (benefit) at the statutory rate	**6,981**	**17,942**	**(121)**	**(72)**
Tax at the domestic rates applicable to profits in the respective country	—	25	(837)	(502)
Non-deductible share-based compensation expenses	517	964	1,240	744
Other operating income	46	62	207	124
State securities taxed at the lower rate of 10.0%	—	(1,900)	(1,020)	(612)
Tax effect of intercompany transactions	—	—	(783)	(470)
Change in unrecognised deferred tax assets	—	144	—	—
Effect of reduction in tax rate	—	(3,226)	—	—
Non tax-deductible expenses	587	59	336	202
Income tax benefit (expense)	**8,131**	**14,070**	**(978)**	**(586)**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Net Consolidated Income for the Year

The Bank had net consolidated income of GEL 26.8 million, GEL 75.6 million and GEL 0.2 million for the years ended 31 December 2006, 2007 and 2008, respectively, for the reasons described above.

Analysis of Consolidated Balance Sheet

The following table sets out the Bank's assets, liabilities and equity as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Assets				
Cash and cash equivalents	108,045	405,770	397,591	238,507
Amounts due from credit institutions	65,475	154,560	99,633	59,768
Loans to customers, net	684,842	1,675,681	2,039,022	1,223,169
Finance lease receivables	9,091	46,674	41,605	24,958
Investment securities	197,131	234,851	56,582	33,942
Investments in associates	496	5,208	16,716	10,028
Property and equipment and investment property	68,052	239,721	349,073	209,402
Goodwill and other intangible assets	43,429	115,989	152,459	91,457
Income tax assets	—	1,557	12,786	7,670
Prepayments	3,476	5,942	18,319	10,989
Other assets	33,289	67,658	75,121	45,063
Total assets	**1,213,326**	**2,953,611**	**3,258,907**	**1,954,953**
Liabilities				
Amounts owed to credit institutions	224,381	901,795	1,216,722	729,887
Amounts owed to customers	559,646	1,355,476	1,193,124	715,731
Debt securities issued	1,073	4,993	5	3
Income tax liabilities	8,138	37,209	24,394	14,633
Provisions	672	1,003	4,263	2,558
Other liabilities	44,558	95,144	101,550	60,918
Total liabilities	**838,468**	**2,395,620**	**2,540,058**	**1,523,730**
Equity				
Share capital	25,202	27,155	31,253	18,748
Additional paid-in capital	277,440	315,415	468,732	281,183
Treasury shares	(1,004)	(1,737)	(2,018)	(1,211)
Retained earnings	63,746	136,342	141,491	84,878
Other reserves	5,257	67,354	26,201	15,717
Total equity attributable to shareholders	**370,641**	**544,529**	**665,659**	**399,315**
Minority interests	4,217	13,462	53,190	31,908
Total equity	**374,858**	**557,991**	**718,849**	**431,223**
Total liabilities and equity	**1,213,326**	**2,953,611**	**3,258,907**	**1,954,953**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Total Assets

As of 31 December 2008, the Bank had total assets of GEL 3,258.9 million, as compared to total assets of GEL 2,953.6 million as of 31 December 2007 and GEL 1,213.3 million as of 31 December 2006.

The 143.4% increase from GEL 1,213.3 million as of 31 December 2006 to GEL 2,953.6 million as of 31 December 2007 was primarily attributable to a 144.7% increase in loans to clients, net, a 275.6% increase in cash and cash equivalents, a 136.1% increase in amounts due from credit institutions, a 413.4% increase in net investments in lease, a 19.1% increase in investment securities, a 252.3% increase in property and equipment, net and a 167.1% increase in intangible assets, net. The increase in cash and cash equivalents was principally the result of the increase in time deposits with credit institutions up to 90 days. The increases in amounts due from credit institutions and loans to clients were primarily due to increased lending activity in line with general improvement in the Georgian economy and therefore demand for corporate and retail lending. The increase in net investments in lease was principally a result of a one-off financing project which was completed in the first half of 2009. The increase in investment securities was due to the purchase of additional investment securities in order to utilise the proceeds of the issuance of Eurobonds in February 2007. The increase in property and equipment, net was due to significant additions through purchases of new assets, revaluation gains recorded for buildings and the acquisition of new subsidiaries. The increase in intangible assets, net was a result of goodwill recognised from acquisitions during the period.

The 10.3% increase from GEL 2,953.6 million as of 31 December 2007 to GEL 3,258.9 million as of 31 December 2008 was primarily due to a 21.7% increase in loans to clients, net, a 45.6% increase in property and equipment, net and a 31.4% increase in intangible assets, net, which was offset by a 35.5% decrease in amounts due from credit institutions and a 75.9% decrease in investment securities. The increase in loans to clients was primarily due to increased lending activity in the first half of 2008, in line with general improvement in the Georgian economy. The increase in property and equipment, net was a result of purchases of new assets, revaluation gains recorded for buildings and the acquisition of new subsidiaries. The decrease in amounts due from credit institutions reflects the decrease in client deposits in the second half of 2008 in the wake of the Conflict and global economic slowdown and due to the reduction of mandatory reserve requirements by the NBG. The sharp decrease in investment securities was due to the Bank's decision to sell a substantial portion of its investment securities in order to use the proceeds to fund its loan book.

Total Liabilities

As of 31 December 2008, the Bank had total liabilities of GEL 2,540.1 million, as compared to GEL 2,395.6 million as of 31 December 2007 and GEL 838.5 million as of 31 December 2006. The 185.7% increase in total liabilities from 31 December 2006 to 31 December 2007 was primarily attributable to a 301.9% increase in amounts owed to credit institutions as a result of the issuance of U.S.$200 million debut Eurobonds in February 2007 as well as increased borrowing from banks, including new loans from FMO, WorldBusiness Capital Inc., Merrill Lynch and Semper Augustus B.V., in order to fund growth in the Bank's loan portfolio; a 142.2% increase in amounts owed to clients which was due to significant growth of the Georgian economy in 2007 (and hence, cash available for deposit by corporate and retail clients) and the acquisition of BG Bank; and a 357.2% increase in income tax liabilities as a result of taxable timing differences between statutory taxable income and IFRS taxable income. The 6.0% increase in total liabilities from 31 December 2007 to 31 December 2008 was due to a 34.9% increase in amounts owed to credit institutions as a result of increased borrowing from banks, including new loans from Merrill Lynch, FMO, the Dutch development bank, and Deutsche Investitions-und Entwicklungsgesellschaft mbH ("**DEG**") and the United States Overseas Private Investment Corporation ("**OPIC**"), in order to fund growth in the Bank's loan portfolio, which was offset by a 12.0% decrease in amounts owed to clients.

Shareholders' Equity

Total shareholders' equity of the Bank amounted to GEL 374.9 million (30.9% of total assets) as of 31 December 2006, GEL 558.0 million (18.9% of total assets) as of 31 December 2007 and GEL 718.8 million (22.1% of total assets) as of 31 December 2008. The increase in total shareholders' equity from 31 December 2006 to 31 December 2007 was mostly due to net income growth in 2007 compared to 2006, revaluation gain from the Bank's property and equipment and available-for-sale investment securities and the conversion of a convertible loan facility from HBK Semper Augustus into 1,157,401 Shares. The increase in total shareholders' equity from 31 December 2007 to 31 December 2008 was the result of the issue of an aggregate of four million new Shares in the form of GDRs.

Cash Flows

The following table summarises the Bank's cash flows for the years ended 31 December 2006, 2007 and 2008.

	Year ended 31 December			
	2006	**2007**	**2008**	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Net cash (used in)/from operating activities	**9,714**	**379,215**	**(164,922)**	**(98,933)**
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	259	(12,256)	(41,740)	(25,039)
Proceeds from sale (purchase) of investment securities	(186,289)	(11,838)	166,175	99,685
Purchase of investments in associates	(496)	(4,575)	(12,495)	(7,496)
Purchase of investment properties	(1,224)	(10,499)	(12,613)	(7,566)
Purchase of property and intangible assets	(30,276)	(74,238)	(122,881)	(73,714)
Net cash (used in)/from investing activities	**(218,026)**	**(113,406)**	**(23,554)**	**(14,130)**
Cash flows from financing activities				
Proceeds from issue of share capital	259,770	38,908	150,594	90,338
Purchase of treasury shares	(3,347)	(2,128)	(2,705)	(1,623)
Purchase of additional interests by minority shareholders	3,454	3,494	31,794	19,073
Purchase of additional interest in existing subsidiaries, net of cash acquired	—	303	—	—
Redemption from debt securities issued	(70)	(8,996)	(4,988)	(2,992)
Dividends paid to the shareholders of the Bank	(579)	—	—	—
Net cash from financing activities	**259,228**	**31,581**	**174,695**	**104,796**
Effect of exchange rates changes on cash and cash equivalents	(107)	335	5,602	3,361
Net increase/(decrease) in cash and cash equivalents	**50,809**	**297,725**	**(8,179)**	**(4,906)**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Cash Flows (Used in)/from Operating Activities

Net cash from operating activities was GEL 9.7 million in 2006 and GEL 379.2 million in 2007, as compared to net cash used in operating activities of GEL 164.9 million in 2008. The increased net cash from operating activities during 2006 and 2007 was due to the growth of the Bank's operations in Georgia reflecting the economic growth of the country whereas the cash flow used in operating activities in 2008 was the result of the Conflict and deteriorating operating environment as a result of the financial crisis.

Cash Flows (Used in)/from Investing Activities

Cash outflows from net cash used in investing activities were GEL 218.0 million, GEL 113.4 million and GEL 23.6 million in 2006, 2007 and 2008, respectively. The 48.0% decrease in cash outflow from 2006 to 2007 was mainly attributable to a decrease in cash outflow related to the purchase of investment securities, which was offset by increased outflow in connection with the acquisition of subsidiaries and the purchase of property and intangible assets. The 79.2% decrease in cash outflow from 2007 to 2008 was due to proceeds from the sale of investment securities (mainly certificates of deposit issued by the NBG, Ministry of Finance treasury bills and corporate shares available-for-sale).

The Bank's capital expenditures from 1 January 2006 through 31 December 2008 were attributable to the modernisation of the Bank's branch network and ATM network as well as investments in information technology hardware and software. In 2006, 2007 and 2008, respectively, the Bank had cash outflows of GEL 30.3 million, GEL 74.3 million and GEL 122.9 million on purchases of property and intangible assets.

Cash Flows from Financing Activities

Net cash from financing activities was GEL 259.2 million, GEL 31.6 million and GEL 174.7 million in 2006, 2007 and 2008, respectively. Cash flow from financing activities in 2006 reflects proceeds from the issue of share capital of GEL 259.8 million. Cash flow from financing activities in 2007 is attributable to proceeds from the issue of share capital of GEL 38.9 million, which was partially offset by the redemption of debt securities. Cash flow financing activities in 2008 is primarily attributable to proceeds from the issue of share capital of GEL 150.6 million and the purchase of additional interests by minority shareholders, which was offset by the purchase of treasury shares and the redemption of debt securities issued.

Commitments and Contingencies

The Bank has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its clients. These instruments bear a credit risk similar to that of loans granted to clients. The Bank also has commitments in respect of operating leases and capital expenditures. The following table sets out the details of the Bank's commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated.

	Year ended 31 December			
	2006	**2007**	**2008**	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Guarantees	77,198	145,627	304,906	182,907
Letters of credit	33,802	23,130	32,547	19,524
Undrawn loan commitments	44,337	39,962	90,023	54,003
Total credit related commitments	**155,337**	**208,719**	**427,476**	**256,434**
Operating lease commitments	20,681	24,334	24,699	14,816
Capital expenditure commitments	1,129	2,623	19,851	11,909
Provisions	(672)	(1,003)	(4,263)	(2,558)
Cash held as security against letters of credit and guarantees	(7,867)	(26,374)	(70,441)	(42,256)
Total financial commitments and contingencies, net	**168,608**	**208,299**	**397,322**	**238,345**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The outstanding contractual amount of any guarantee or letter of credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded.

Capital Adequacy

Bank of Georgia complies with the Basel I Standards established by the Bank of International Settlements. The Basel I Standards provide for a minimum capital adequacy ratio of 8%. Compliance with Basel I Standards is only applicable for banks.

Bank of Georgia is required to comply with the NBG's capital adequacy requirements.

As the NBG requires Bank of Georgia to calculate its capital adequacy in accordance with the NBG's methodology, as well as under Basel Standards as a standalone legal entity, the table below is presented for Bank of Georgia on a standalone basis calculated in accordance with NBG Standards.

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Ordinary shares	25,202	27,130	31,235	18,737
Share premium	271,360	310,902	466,924	280,098
Retained earnings	34,578	54,919	101,926	61,143
Intangible assets	(23,520)	(23,992)	(26,939)	(16,159)
Tier I capital	**307,620**	**368,959**	**573,146**	**343,819**
Current year profit / (loss)	21,900	45,735	(30,128)	(18,073)
General loan loss provisions	14,293	29,593	35,495	21,292
Revaluation reserves	-	-	-	-
Subordinated debt	51,406	87,539	157,535	94,502
Tier II capital	**87,599**	**162,867**	**162,902**	**97,721**
Total capital	**395,219**	**531,826**	**736,048**	**441,540**
Risk-weighted assets	1,325,114	2,796,443	3,458,133	2,074,465
Deductions from capital	(17,236)	(166,230)	(269,427)	(161,624)
Capital adequacy ratios				
Tier I ratio	23.21%	13.19%	16.57%	16.57%
Total capital ratio	28.52%	13.07%	13.49%	13.49%

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

For purposes of this Prospectus, the following table sets out an analysis of the Bank's regulatory capital on a consolidated basis under Basel I Standards.

	Year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Ordinary shares	25,202	27,155	31,253	18,748
Share premium	277,440	315,415	468,732	281,183
Retained earnings	63,746	136,342	137,768	82,644
Tier I capital	**366,388**	**478,912**	**637,753**	**382,575**
General loan loss provisions	11,690	28,909	36,880	22,124
Revaluation reserves	5,257	67,354	26,201	15,717
Subordinated debt	51,405	87,538	157,535	94,502
Undisclosed reserves	4,217	13,462	56,913	34,141
Tier II capital	**72,569**	**197,263**	**277,529**	**166,484**
Deductions from capital	(41,283)	(111,809)	(136,256)	(81,737)
Total capital	**397,674**	**564,366**	**779,026**	**467,322**
Risk-weighted assets	935,233	2,312,759	2,950,401	1,769,887
Capital adequacy ratios				
Tier I ratio	39.18%	20.71%	21.62%	21.62%
Total capital ratio	42.52%	24.40%	26.40%	26.40%

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

There are several differences between the NBG capital adequacy ratio methodology and the Basel I Standards capital adequacy ratio methodology. The most significant of such differences include: (i) for purposes of calculating the NBG ratio, a 175% risk weighting is applied to loans denominated in foreign currency (unless the borrower's principal source of income is from exports); (ii) for purposes of calculating the NBG ratio, investments, except for ownership interests above

50.0% in subsidiaries, are weighted at 100.0% whereas, under Basel I Standards methodology, investments in financial services companies are weighted at 0% and other investments are weighted at 100.0%; and (iii) revaluation reserve is included in total capital for purposes of the Basel I Standards ratio but not for purposes of the NBG ratio. Risk weighted assets, Tier I capital and regulatory capital in accordance with the NBG's methodology were GEL 3.5 billion (U.S.$2.1 billion), GEL 573.1 million (U.S.$343.8 million) and GEL 736.0 million (U.S.$441.5 million), respectively, as of 31 December 2008. The NBG requires Georgian banks to maintain a total capital adequacy ratio of 12% and a Tier I capital adequacy ratio of 8%. As of 31 December 2008, the Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 13.5%, and the Bank of Georgia's Tier I capital adequacy ratio was 16.6%. Bank of Georgia was in compliance with the NBG's capital adequacy ratio requirements as of 31 December 2006. In connection with the Intellect Bank acquisition in February 2006, Bank of Georgia received a one-year waiver from compliance with the NBG's capital adequacy ratio requirements until 20 February 2007, insofar as such ratios are affected by impact of the Intellect Bank acquisition. As of 30 June 2009, Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 17.4%, and Bank of Georgia's Tier I capital adequacy ratio was 16.4%.

Significant Accounting Policies

The notes to the Bank's Financial Statements, appearing elsewhere in this Prospectus, contain a summary of the Bank's significant accounting policies, including a discussion of changes in accounting policies resulting from adoption of new or revised standards. These policies, as well as estimates and judgements made by the Bank's management, are integral to the presentation of the Bank's consolidated financial condition and results of operations. It is important to note that these accounting policies in certain cases require management to make difficult, complex or subjective estimates and judgements, often regarding matters that are inherently uncertain. On an ongoing basis, the Bank's management evaluates its estimates and judgements, including those related to allowance for impairment of financial assets, acquisition of subsidiaries, goodwill, income taxes, valuation of investment securities, de-recognition of financial assets and liabilities, insurance contract liabilities and other provisions. The Bank's management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. Additional information about these policies can be found in Note 3 to the Bank's Financial Statements appearing elsewhere in this Prospectus.

Subsidiaries

Subsidiaries in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the subsidiary's operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisition of subsidiaries

The Bank has entered into acquisitions and in the future may make additional acquisitions.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

Step-up acquisition

For business combinations involving exchange transaction in stages by successive phase purchases, each exchange transaction is treated separately by the Bank, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Bank's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases at the date of increase in ownership interests are charged or credited to retained earnings.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular purchases and sales of financial assets are recognised on the trade date, that is, the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with unrealised gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the balance sheet date, without any deduction for transaction costs. For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to clients and debt securities issued. These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to clients

For amounts due from credit institutions and loans to clients carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus, Cyprus and Moldova also have various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Investment properties

The Bank holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as "Net gains from revaluation of investment properties".

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Bank are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Bank's primary or the Bank's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the

Bank may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, environmental and pollution exposures and therefore, the ultimate cost of which cannot be known with certainty at the balance sheet date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Share-based payment transactions

Employees (including senior executives) of the Bank receive share-based remuneration, whereby employees render services as consideration for the equity instruments ("**equity settled transactions**").

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of the Bank's Shares) which are treated as vesting irrespective whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its clients. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the balance sheet date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Functional and reporting currencies and foreign currency translation

The Financial Statements are presented in Lari, which is the Bank's presentation currency. The Bank's functional currency is U.S. Dollar effective 1 January 2007. Prior to 1 January 2007, the Lari was its functional currency. Each entity in the Bank determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies, translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2008 and 2007 were 1.6670 and 1.5916 Lari to U.S.$1.00 and 2.3648 and 2.3315 Lari to €1.00, respectively.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Recent Developments

In December 2008, Bank of Georgia completed the reorganisation of its retail banking business in Georgia as part of its strategic cost control measures in response to the recent economic downturn. Principal changes in the retail banking business included the closure of POS lending and mobile sales units, the merger and downsizing of the general consumer and mortgage lending units and the reduction of micro finance activities. The reorganisation has led to increased focus on the core businesses of the Bank, resulting in greater operational efficiency and cost-savings.

From 1 January 2009 up until the date of this Prospectus, the Bank drew down the entire U.S.$200 million from the EBRD and IFC financing package agreed in December 2008 and redeemed U.S.$260.1 million of wholesale debt financing. Repayments included the repayment of the U.S.$65.0 million loan facility and U.S.$43.5 million syndicated loan granted in December 2007 and August 2007, respectively as well as the settlement of an aggregate amount of U.S.$140 million of loan passthrough notes issued in June and July of 2008. During this period, the Bank has witnessed a decline in its deposit base although the Bank's capital adequacy and liquidity position did improve. The Bank also continues to provision conservatively in response to the general economic slowdown in the Principal Markets.

BANKING SECTOR AND BANKING REGULATION IN GEORGIA

Introduction

The Georgian banking sector consists of Georgian banks, non-bank depository institutions and microfinance organisations. Non-bank depository institutions and microfinance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only, or issuing micro-loans, while banks provide a wide range of banking services. The FSA is the regulator of the whole financial sector and it supervises the banking sector, the securities market and insurance companies. The responsibilities of the FSA relevant to the supervision of commercial banks include issuing licences, establishing mandatory financial ratios, regulating accounting and reporting rules and supervising compliance with laws and regulations. The NBG, the former supervisor of the banking sector, is Georgia's central bank and it establishes minimum reserve requirements for commercial banks. Among its other responsibilities, the NBG establishes Georgian monetary policy, controls inflation, issues money and ensures effective functioning of payment systems.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the Soviet Union in 1991, when a two-tier banking system was introduced: the former GosBank (State bank of the Soviet Union), Georgia branch became the NBG and various commercial banks were established in mid-1991. Subsequently, the five state-owned Georgian banks (Eximbank, Savings Bank, Agromretsvbank, Mretsvmshenbank and Binsotsbank) were fully privatised in the period from 1993 to 1995.

The NBG was established as an independent supervisory, regulatory and monetary body although many of the practices in place when it was part of the Soviet Union remained largely unchanged. In particular, it was still directly influenced by the Government and was required to finance the budget deficit and continued to provide indirect loans to state-owned enterprises in Georgia.

During the period from 1991 to 1994, Georgia experienced intense political and economic turmoil resulting from the break-up of traditional trade relations within the Soviet Union, followed by a military coup, a civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet Union. During this period, the NBG pursued an overly liberal monetary policy which, coupled with low capital requirements for the licensing of commercial banks (the minimal statutory capital for a bank in 1994 was approximately U.S.$500 in real terms), encouraged rapid growth in the number of banking institutions in the country, which increased from five commercial banks in 1991 to 226 in 1994. By 1994, the majority of commercial banks were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all of their value.

On 23 June 1995, Parliament adopted the Organic Law of Georgia on the National Bank of Georgia (the "**NBG Law**"), and on 23 February 1996, it adopted the Law of Georgia on the Activities of Commercial Banks (the "**Banking Law**"), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential regulations. The NBG's banking supervision policy was based on the "25 Key Principles of Efficient Banking Supervision" developed by the Basel Committee on Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification in order to: identify credit risks with greater precision, enhance external and internal auditing functions and eliminate conflicts of interests in banking activities. As a result of these changes, the number of commercial banks in Georgia was reduced from 226 to 53 between 1994 and 1997. Following these reforms, the banking industry became the fastest growing industry sector in Georgia. In the period from 1997 to 2004, financial intermediation grew almost nine-fold in real terms, compared with an increase in GDP of 1.6 times over the same period. In the period from 2004 to 2008, financial intermediation almost tripled in real terms, compared with a GDP growth rate of 1.5 times over the same period.

In 1997, further banking industry regulations came into force. The NBG lowered reserve requirements in an attempt to encourage greater financial intermediation in Georgia by reducing the intrinsic costs of high reserve requirements for commercial banks operating in the country. At the same time, the minimum capital adequacy ratio was increased from 8.0% to 10.0% of total assets. In January 1997, the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5.0 million by the end of 2000, in order to promote further consolidation of the banking sector. Throughout 1998, the NBG pursued this objective by revoking the licences of banks which failed to meet minimal capital requirements and other prudential regulations.

The Russian financial crisis, which occurred in 1998, led to a devaluation of the Lari by 40.0%, a consequent reduction in commercial bank deposits, and a significant slowdown in GDP growth. The NBG introduced stricter prudential regulations in order to stabilise the Georgian banking sector and prepared a plan to assist banks to maintain their liquidity by offering short-term liquidity loans. Only two Georgian banks requested stabilisation loans of less than GEL 4.0 million in total.

In 1999, new accounting rules consistent with international accounting standards were introduced and minimum capital adequacy requirements were further strengthened from 10.0% of total assets, to 12.0% of risk-based assets of Tier I capital and 15.0% for total capital. Currently, minimum capital adequacy requirements are that Tier I capital to risk weighted assets must not be less than 8% and total capital to risk weighted assets must not be less than 12%. Furthermore, banks were required to appoint international firms to carry out external audits from February 1999.

In 2000, the NBG introduced the CAEL (Capital, Assets, Equity and Liquidity) methodology for the assessment of the financial condition of operating commercial banks. This system, which has evolved into and is now known as the CAMEL (Capital, Assets, Management, Equity and Liquidity) system, is routinely used by the regulator to assess the performance of banks and to develop a set of recommendations as to what measures need to be taken in order to induce improvements in the financial and operating results of the banking institution in question. As a result of the introduction of these policies and prudential regulations by the regulator, the number of licensed commercial banks had decreased to 30 as of 31 December 2000.

A number of reforms were undertaken by the NBG in 2001. The NBG introduced rules for asset classification and provisioning, and utilisation of loan loss reserves by Georgian commercial banks that defined criteria for, among other things, a risk-weighted classification of bank loans (including contingent liabilities), interbank deposits, foreclosed collateral and the provisioning of loan loss reserves. In order to avoid conflicts of interest and prevent improper use of managerial privileges, a decree dealing with conflicts of interest and related party transactions in commercial banks was approved by the NBG in 2001. Furthermore, during the same year, the NBG introduced internal audit requirements for commercial banks, obliging them to establish internal audits in order to control their banking operations.

In 2002, the NBG adopted a regulation on "Fit and Proper Criteria" for commercial bank administrators. The "Fit and Proper Criteria" has been amended several times during the period from 2002 to 2008 in order to provide clarification and rules governing its application.

To gradually increase the level of capitalisation and move towards European standards, in 2003 the NBG increased the minimum amount of required capital for Georgian commercial banks to GEL 12.0 million. During the same year, the NBG circulated an official letter to commercial banks requesting that they begin to introduce the best corporate governance practices based on the 1999 OECD Corporate Governance Principles.

During 2004 and 2005 the NBG continued to amend various regulations to facilitate the development and stability of the Georgian banking sector. The NBG relied principally on the key principles published by the Basel Committee on Banking Supervision.

In 2006, the restriction on ownership of more than 25% of a Georgian commercial bank was eliminated to promote investments in the banking sector. The same year, certain measures were taken to increase the transparency of the banking sector, including obliging commercial banks to publish quarterly financial reports, thus promoting the transparency of the financial condition of the banks and providing other types of information to interested parties.

In 2007, the NBG approved the Manual on On-Site Supervision of Commercial Banks and the Manual on Off-Site Supervision and Analysis by the CAEL System became effective.

The NBG approved comprehensive guidelines on risk management in Georgian commercial banks in 2008. As a result of such guidelines, each commercial bank is required to analyse its risk management systems, design a plan of action aimed at compliance with the guidelines and designate a person or group of persons responsible for preparing such an action plan. As of 31 December 2008, there were 20 licensed commercial banks in Georgia.

In 2008, major reforms were carried out in the financial sector regulatory system of Georgia. Based on the amendments to the NBG Law in March 2008, the FSA was established to take over all supervisory functions of the NBG related to commercial banks and non-bank deposit institutions, except for the supervision of the minimum reserve requirements. The FSA also has the authority to supervise the securities market and insurance companies. According to the NBG Law, subject to the FSA implementing new rules and regulations which replace those that were previously adopted by the NBG and the former regulators of the securities and insurance sectors, the previous rules and regulations will remain in force until 1 January 2010. The fact that the FSA has the authority to implement new rules and regulations to replace those previously adopted, means that there may be some confusion as to which rules and regulations are in force at any one time.

Overview of the Georgian Banking Sector

The Georgian banking sector has experienced rapid growth in recent years. However, in 2008, Georgian commercial banks faced certain difficulties. During that year, certain performance indicators of the commercial banks, such as net profit and return on assets and equity, were negatively affected. According to the IMF, the deterioration in banking sector conditions in 2008 was attributable to the rapid credit growth in recent years, the Conflict, the impact of the global financial crisis and the devaluation of the Lari in November 2008.

According to information published by the NBG, in 2008 the gross assets of the Georgian banking sector grew by 23.0% and comprised GEL 8.9 billion (U.S.$5.3 billion) as of 31 December 2008 while aggregate loans granted by Georgian banks grew by 31.0% during 2008 and the ratio of loans to GDP in 2008 was 31.4% as compared to 27.0% in 2007. The aggregate statutory capital of Georgian banks was GEL 1.5 billion (U.S.$899 million) as of 31 December 2008, while the aggregate loss of Georgian banks was approximately GEL 215 million (U.S.$129 million) for 2008. The return on assets (ROA) of the banking sector in 2008 was negative 2.6 % and the return on equity (ROE) was negative 12.6%.

Assets and Liabilities, Credit Quality and Interest Rates

The majority of the assets of Georgian banks comprise loans to private sector borrowers (excluding interbank loans). Based on information published by the NBG, in 2008, loans to private sector borrowers (excluding interbank loans) represented 67.5% of total assets of commercial banks in Georgia, while investment securities accounted for 1.0%. Aggregate loans amounted to GEL 6.0 billion (U.S.$3.6 billion) as of 31 December 2008, representing an increase of 31% year-on-year, while loans denominated in GEL increased by 14.0% and loans denominated in foreign currency increased by 39.0% over the same period.

The overall quality of loans granted by Georgian banks deteriorated in 2008 compared to 2007. Based on information published by the NBG, as of 31 December 2008, non-performing loans constituted 2.6% of the gross loan portfolio of the entire sector, whereas as of 31 December 2007, such loans amounted to 1.6% of total loans. There has been an increase in long-term loans (with a maturity of more than one year), from 27.0% in 2000 to 71.7% as of 31 December 2008.

In 2008, the majority of gross liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 52.3% and borrowings for 43.2% of gross liabilities (excluding equity capital). During 2008, deposits in banks grew by 13.0%. GEL deposits decreased by 21.0% and there was a 30.0% growth of deposits in foreign currencies.

Interest rates on bank loans had historically been decreasing until 2006. However, the last two years were marked by a slight increase in interest rates on bank loans. Based on information published by the NBG, average interest rates on loans granted by commercial banks were 17.9% in 2005 and 18.6% in 2008. Average interest rates on loans denominated in GEL were 21.3% in 2005 and 21.8% in 2008 and the average interest rate on foreign currency loans was 17.1% in 2005 as well as in 2008. Average interest rates on foreign currency bank deposits were 7.1% in 2005 and 9.2% in 2008, whereas average interest rates on Lari denominated bank deposits were 5.9% in 2005 and 9.4% in 2008.

Based on information published by the NBG, the NBG's international exchange reserves increased in 2008 and comprised approximately U.S.$1.5 billion as of the year-end. The official average monthly exchange rate of the Lari against the U.S. dollar depreciated by approximately 3.4% in December 2008 compared to December 2007, while inflation as measured by period-end CPI decreased from 11.0% in 2007 to 5.5 % in 2008.

Dollarisation of the Georgian Economy

Following the economic and political uncertainties of the early 1990s and subsequent hyper-inflation, the Georgian economy underwent a process of dollarisation, whereby the U.S. dollar and other freely convertible currencies became the major means of payment and wealth accumulation in Georgia. This process was encouraged by the financial liberalisation of the mid-1990s, which allowed domestic financial intermediation to be conducted in both national and foreign currencies.

Dollarisation subsided with the stabilisation of the economy in 1995, only to increase again after the Russian financial crisis of 1998. The majority of deposits in the Georgian banking sector are still held in foreign currencies. Although the proportion of deposits held in foreign currencies had been gradually decreasing until 2008, based on information published by the NBG, in the period from 2007 to 2008, the proportion of deposits denominated in foreign currencies increased from 66.0% to 76.0%, reflecting the depreciation of the Lari in November 2008 and a general preference among the population (in common with other countries in transition) to maintain savings in a foreign currency.

Based on information published by the NBG, the portion of loans denominated in foreign currency increased from 69.0% to 73.0% between 2007 and 2008. The portion of short-term loans denominated in foreign currency increased from 19.0% to 21.0% from 2007 to 2008 while the portion of long-term foreign currency-denominated loans (with a maturity of one year or more) decreased from 81.0% to 79.0% over the same period.

The NBG has taken steps to stimulate demand for the Lari, including the introduction of differentiated reserve requirements for domestic and foreign currencies**.** Various policies of the Government have also led to increased demand for the Lari, for example, contraction of the shadow economy traditionally served by the U.S. dollar naturally led to its replacement by the national currency. Furthermore, between 2004 and 2007, improved fiscal discipline, tax collections and increased turnover of the state budget have also fuelled demand for the Lari.

Foreign Investment

There are currently no legal or regulatory barriers impeding foreign investment in the Georgian banking sector, but competition from foreign banks is not significant at present. Previously, no Georgian or foreign legal or natural person (other than a bank) could own more than 25.0% of a Georgian bank; however, this limit was abolished in March 2006.

Based on information published by the NBG, capital investment in Georgian commercial banks by foreign financial and non-financial organisations and institutions represented 64.2% of the total capital investment in the Georgian banking sector as of 31 December 2007. As of 1 April 2009, out of the 20 commercial banks licensed to operate in Georgia, 15 had foreign capital investment and two were branches of non-resident foreign banks. As of the same date, the share of the banks with foreign capital investment accounted for 85.7% of the total paid up capital of the banks.

Major foreign investors in the Georgian banking sector include the EBRD, IFC, OPIC, Société Générale (France), Kreditanstalt fur Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, Vneshtorgbank (Russian Federation), BTA (Kazakhstan), Halyk Bank (Kazakhstan), Dhabi Group (UEA), International Bank of Azerbaijan, Development Bank of the Caucasus (Azerbaijan), HSBC Europe (the Netherlands), Ziraat Bank (Turkey) and Privatbank (Ukraine).

Concentration within the Banking Sector

Recent years have been marked by increasing consolidation and concentration within the Georgian banking sector. According to information published by the NBG, as of 31 December 2008, the aggregate assets of all banks in Georgia were approximately GEL 8.8 billion (U.S.$5.3 billion), with the five largest banks accounting for approximately 79.3% of such assets.

Payment Systems

At the end of the 1990s, the Georgian banking sector began to develop real-time settlement systems and to implement the centralised system of Society for Worldwide Interbank Financial Transactions, "SWIFT". Banking card processing companies were established and Georgian banks started to issue international bank cards. The number of ATMs throughout Tbilisi has significantly expanded over the last few years and a number of initiatives to pay salaries to employees via plastic banking cards (rather than in cash) have been implemented. All bank transfers are now done electronically and a clearing system for VISA card transactions in Lari (known as GNNSS) has been introduced. International and domestic money-transfer systems are widely used in commercial banks. According to the NBG, the total value of bank card transactions carried out using cards issued by resident issuers amounted to GEL 2.8 billion in 2007 and GEL 4.1 billion (U.S.$2.5 billion) in 2008.

Credit Ratings

On 8 August 2008, Standard & Poor's lowered Georgia's long-term credit rating to "B" from "B+", in response to the Conflict. Georgia's short-term credit rating was maintained at "B". After being placed on CreditWatch negative in August 2008, Georgia's outlook was revised to "stable" on 25 September 2008 and currently remains on that outlook. The 2013 Sovereign Bonds, which were issued in April 2008, were given a "B" credit rating by Standard & Poor's.

Fitch also downgraded Georgia in August 2008, to a "B+" long-term credit rating for both local and foreign currency and a "B" credit rating for short-term foreign currency, with a negative outlook. The 2013 Sovereign Bonds are rated as "B+" but also have a negative outlook on watch.

Several Georgian banks, including the Bank, have been rated by international rating agencies. The Bank, however, is the only commercial bank in Georgia to be rated by three international rating agencies.

Role of the National Bank of Georgia

The NBG is the central bank of Georgia and the banker and fiscal agent of the Government. The main objective of the NBG is to maintain the stability of prices, which implies the existence of a moderate and predictable rate of inflation. The NBG is responsible for ensuring the stability and transparency of the financial system and promoting sustainable economic growth in Georgia. The role and responsibilities of the NBG are set out in the Constitution of Georgia, the NBG Law and other Georgian legislation. In addition, the NBG is expected to be guided by the rules and customs of international banking practice. The NBG is entitled to enter into agreements, acquire, hold and manage property, act as a claimant or defendant in legal proceedings and to independently perform its functions.

The NBG is made up of the NBG itself and legal entities of public law existing at the NBG: the FSA and the Financial Monitoring Service of Georgia ("**FMS**").

The supreme body of the NBG is its Council, which has five members. The Council is the supreme authority for the management and supervision of the NBG's activities. Among other things, the Council is responsible for the approval of the main principles of management of the international reserves of Georgia and of the rules of establishing foreign currency exchange rates. The President of the NBG is also Chairman of the Council. In addition to the Chairman, the Council consists of a Vice-President and other members. Members of the Council are elected for a seven-year term by Parliament based on the nomination of the President of Georgia and are eligible for re-election. A member of the Council may be removed only by a decision of Parliament by way of impeachment in case he or she breaches the Constitution or commits a crime. A new member must be elected to replace him or her. The President and the Vice-President of the NBG are appointed and dismissed by the President of Georgia.

Under the NBG Law, the NBG has the following major functions:

Issuing Money and Regulating its Circulation

The NBG has the exclusive right to issue bank notes and coins in Georgia. The NBG is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

Monetary Policy

The main direction of the NBG's monetary policy is to attain and maintain the targeted rate of average annual increase of consumer price levels. The NBG implements monetary policy according to the main directions of monetary and foreign exchange policy defined annually by Parliament.

The NBG is responsible for setting minimum reserve requirements for banks and non-bank depositary institutions and may increase the minimum required amount of reserves as it deems appropriate. The NBG has the power to impose fines on banks and non-bank depositary institutions which fail to maintain the minimum reserves.

In the conduct of its monetary policy, the NBG is permitted to issue debt securities and to purchase and sell such debt securities, as well as those issued by the State, directly or under repurchase agreements in the open market. It is also authorised to issue loans to commercial banks and non-bank depositary institutions with appropriate security, accept deposits and be a lender of last resort to commercial banks for a period not exceeding three months.

Foreign Exchange and International Reserves

The NBG determines the exchange rate for the Lari against the U.S. dollar according to the average weighted exchange rate calculated on the basis of the interbank transactions (including those in which the NBG is involved) registered in the Bloomberg Electronic Trading System within a specified period of time. As to the official exchange rate of the Lari against other foreign currencies, it is determined on the basis of cross-currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states. The NBG holds and manages official international reserves.

Acting as Banker, Adviser and Fiscal Agent of the Government

The NBG advises the President and the Government, including the Minister of Finance, on all matters that relate to the activities of the NBG, the main parameters of the annual state budget and amendments to it, including the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from the Treasury Service of Georgia and, in such capacity, to receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to act as the fiscal agent of the state agencies in the marketing and administration of debt securities issued by such agencies.

Operation of Clearing and Settlement Facility

The NBG is entitled to establish procedures and issue regulations relating to clearing and non-cash settlement, organise implementation of the payment systems and provide service and administration of such systems to ensure their efficient operation. The NBG has the power to assist banks to organise payment systems and supervise them.

Reporting

Within one week of the date of submission of the draft Law on the State Budget by the Government to Parliament, the NBG submits a draft document on the main directions of the monetary and foreign exchange policy for the following year to Parliament, which approves this document together with the Law on the State Budget. If Parliament fails to approve the main directions of the monetary and foreign exchange policy, either the revision of the Law on the State Budget is put on the agenda or the NBG operates in accordance with its draft proposals. The draft document on the main directions of monetary and foreign exchange policy shall include the targeted level of inflation for the following year, the main instruments of monetary policy used to attain the targeted inflation rate and discussion of potential risks.

Within four months of the end of each fiscal year, the NBG submits a report on the implementation of the monetary and foreign exchange policies to Parliament for its approval.

Supervision of the Financial Sector and AML Measures

Through the FSA and the FMS (legal entities of public law existing at the NBG), the NBG supervises the financial sector, including commercial banks, insurance companies and the securities market and monitors the measures aimed at preventing the legalisation of illicit income and terrorist financing.

Role of the Financial Supervisory Agency of Georgia

The FSA exists as an independent legal entity of public law at the NBG. It is the only state body empowered to supervise the financial sector. The head of the FSA is appointed for a five-year term and dismissed by the President of Georgia. The activities of the FSA are supervised by the FSA Council, which has five members, one of whom is the president of the NBG. The remaining members of the FSA Council are experts with experience in the financial sector and, under the requirements of the NBG Law, an 'international reputation'. The members are appointed and dismissed by the President of Georgia based on consultations with the Chairman of Parliament. Major functions of the FSA Council include defining and controlling the main directions of the FSA's activities, approving the FSA's budget and hearing disputes related to the FSA's supervisory functions.

The FSA has the following major functions:

Supervision and Licensing

The FSA is responsible for the supervision and licensing of commercial banks and non-bank depositary institutions. The FSA has the power to issue and revoke licences, carry out inspections, impose restrictions and sanctions and to determine whether to place banks and non-bank depository institutions into temporary administration and/or liquidation. The FSA is also responsible for the registration and supervision of microfinance organisations and currency exchange and money transfer offices in Georgia.

Regulation of Reporting Rules and Capital Requirements

The FSA sets accounting and reporting rules and procedures for commercial banks and non-bank depositary institutions and is entitled to carry out an audit of all of the relevant documents of such institutions as well as of their subsidiaries. The FSA has the power to determine the minimum capital requirements for banks and non-bank depositary institutions and to obtain information about sources of capital, as well as owners and beneficial owners of significant interests in commercial banks. The FSA issues various regulations related to its supervisory functions.

Reporting

The FSA reports to the FSA Council. The head of the FSA submits periodic reports to the FSA Council on the activities carried out during the reporting period. Furthermore, the FSA submits an annual report on its activities to Parliament.

Regulation of the Georgian Banking Sector

The main laws regulating the Georgian banking sector are the NBG Law and the Banking Law. In addition, the NBG and the FSA have the power to issue decrees/resolutions on various issues within their competence, including, but not limited to, monetary regulation instruments, banking supervision regulations and payment system regulations. The principal legislative act regulating the activities of banks is the Banking Law, which (among other things) sets out the list of permitted and prohibited activities for banks and establishes the framework for the licensing of banks and the regulation of banking activity by the FSA.

Licensing

A licence must be obtained from the FSA for, and banks are permitted to engage only in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-bearing and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse, trade finance including the granting of guaranties, letters of credit, acceptance finance, and forfeiting; (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) securities brokerage services; (vii) trust operations on behalf of clients and funds management; (viii) safekeeping and accounting for valuables including securities; (ix) credit-information services; (x) activities of the central depositary as determined by the Law of Georgia on Securities Market; (xi) leasing property; and (xii) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Law of Georgia on Securities Market.

Mandatory Financial Ratios

The FSA is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios. The ratios listed in the table below are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (FSA President Order No. 8 of 26 September 2008).

Mandatory Financial Ratio	FSA Minimum/Maximum	Description
Capital adequacy ratios		
Tier I capital adequacy ratio	Tier I Capital to Risk Weighted Assets must not be less than 8.0%.	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital (Tier I and Tier II) adequacy ratio................................	Regulatory Capital to Risk Weighted Assets must not be less than 12.0%.	This ratio is formulated as a ratio of a sum of a bank's Tier I and Tier II capital (less certain deductions) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account, among other things, the bank's capital, selected categories of assets, their respective reserves and risks relating to off-balance sheet commitments and contingencies.
Related party lending ratios		
Related party lending single insider ratio....................................	No credit to an insider (or his other liabilities to a bank) to exceed 5.0% of Regulatory Capital.	These ratios are intended to limit a bank's credit exposure to an insider (i.e. a person or entity controlling the bank, a high-rank official of the bank, an affiliated company or anyone related the any of the above). They are formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.
Related party lending all insiders ratio..	The aggregate of all credits to insiders and their other liabilities to a bank not to exceed 25.0% of Regulatory Capital.	

Mandatory Financial Ratio	FSA Minimum/Maximum	Description
Lending ratios		
Lending ratio individual borrower..	No credit to an outsider (or his other liabilities to a bank) to exceed 15.0% of Regulatory Capital.	These ratios are intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. They are formulated as the maximum ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.
Lending ratio group of related borrowers..	The aggregate of all credits to a group of related outsiders and their other liabilities to the bank not to exceed 25.0% of Regulatory Capital.	
Large loans to clients......................	Total large loans to clients and other liabilities not to exceed 200.0% of the Regulatory Capital. The FSA has defined "Large Loans and Other Liabilities" as loans to a single borrower or a group of related borrowers and other liabilities in excess of 5.0% of Regulatory Capital.	This ratio intends to limit the concentration of large borrowings in a bank's loan portfolio and a bank's exposure to single or related large borrowers.
Unsecured loans		
Uncollateralised loans.....................	Not to exceed 25.0% of the total loan portfolio of a bank.	This ratio is intended to limit the bank's credit exposure to unsecured loans.
Liquidity ratios		
Average liquid assets: liabilities.....	Average liquid assets during the month shall not be less than 20.0% of average liabilities over the course of the month.	This ratio is intended to limit a bank's liquidity risk by ensuring that a bank maintains sufficient reserves of highly liquid assets.

Mandatory Financial Ratios	FSA Minimum/Maximum	Description
Investments ratios		
Investments: equity	Total investments in the capital of legal persons not to exceed 50.0% of the difference between total assets and liabilities of the bank.	These ratios are intended to limit the aggregate risk of a bank's investments in legal persons by limiting such investments to a proportion of the share capital.
Investments plus fixed assets: equity	Total investments in the capital of legal persons together with remaining value of a bank's fixed assets not to exceed 70.0% of the difference between total assets and liabilities of the bank.	
Open exchange position		
Balance sheet open exchange position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to on-balance sheet open exchange position.	The on balance sheet open exchange position is the value of foreign exchange account balances, meaning non-GEL assets and liabilities.
Cumulative open exchange position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to both on-balance sheet open exchange position and off-balance sheet open exchange position.	The cumulative open exchange position is the value of foreign exchange account balances, meaning on-balance sheet non-GEL assets and liabilities and off balance sheet non-GEL commitments.

The following table sets forth information regarding Bank of Georgia's compliance with the foregoing mandatory financial ratio requirements as of 31 December 2006, 2007 and 2008 and as of 31 March 2009.

Mandatory Financial Ratio	Financial Ratio Requirement		As of 31 December			As of 31 March
			2006	2007	2008	2009
Tier I capital adequacy ratio	≥	8.00%	23.21%	13.19%	16.57%	16.40%
Total capital adequacy ratio	≥	12.00%	28.52%	13.07%	13.49%	17.37%
Related party lending single insider ratio	≤	5.00%	2.92%	2.74%	2.08%	1.74%
Related party lending all insiders ratio	≤	25.00%	8.76%	12.33%	14.57%	11.36%
Lending ratio individual borrower	≤	15.00%	4.11%	12.23%	13.32%	11.50%
Lending ratio a group of related borrowers	≤	25.00%	4.47%	17.08%	8.27%	7.00%
Large loans to clients	≤	200.00%	0.00%	80.30%	76.25%	42.34%
Uncollateralised loans	≤	25.00%	3.86%	12.58%	15.08%	14.21%
Average liquid assets: liabilities(1)	≥	20.00%	53.03%	39.38%	24.04%	34.37%
Investments: equity	≤	50.00%	7.33%	39.25%	48.61%	48.43%
Investments plus fixed assets: equity	≤	70.00%	21.63%	69.81%	84.47%	86.20%
Balance sheet open exchange position	≤	20.00%	4.37%	19.91%	2.02%	4.74%
Cumulative open exchange position	≤	20.00%	5.36%	15.98%	4.06%	3.47%

(1) Until 2008, the mandatory average liquid assets: liabilities ratio was no less than 30.00%.

Bank of Georgia is currently in compliance with all of the mandatory financial ratios in all material respects, except for the "Investment plus fixed assets: equity" mandatory financial ratio. On 15 December 2008, Bank of Georgia received a waiver for the breach of this mandatory financial ratio from the FSA. Such waiver is valid until 31 December 2009, subject to the FSA's right to require the Bank to sell its investments or fixed assets in order to comply with the aforementioned financial ratio before December 2009. In addition, during the period the waiver is in effect, the Bank is prohibited from investing in shares and fixed assets in an amount exceeding GEL 2.0 million in aggregate without the FSA's prior approval.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, in order to stimulate Lari demand, the NBG introduced differentiated reserve requirements for domestic and foreign currencies and such differentiated reserve requirements continued to exist until June 2007. Beginning in June 2007, the NBG established the same minimum reserve requirements for funds in foreign currency and the Lari at 13.0%, which was then further reduced as discussed below.

In its Georgian Banking System Development Strategy for 2006-2009, the NBG has undertaken to pursue a policy of reducing minimum reserve requirements and, in particular, gradually bringing minimum reserve requirements for the Lari funds in line with those for foreign currencies. The NBG established the following minimum reserve requirements for foreign currency as well as the Lari: 5.0% for funds other than the funds borrowed from non-resident entities starting from October 2008 and 0.0% for funds borrowed from non-resident entities starting from January 2009.

In order to support the development of securities emissions by commercial banks in Georgia, the NBG does not require that commercial banks include the amount of capital (or equivalent funds) when calculating such reserves.

If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence was caused by reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Provisioning

Pursuant to the "Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks", approved by order of the NBG President No. 350 of 29 December 2000, loans are classified into five risk categories and banks are required to create reserves at the levels indicated below:

Standard Loans. Where principal and interest are being paid in a timely manner: 2.0%.

Watch Loans. Where some deficiencies or trends are apparent that represent a minor credit risk, past due interest is unpaid and has been added to principal, or a payment is overdue by less than 30 days: 10.0%.

Substandard Loans. Where the financial capability of the borrower or the value of the collateral has declined to such an extent that it jeopardises repayment, an unsecured or partially secured loan is more than 30 days past due, or a secured loan is more than 60 days overdue: 30.0%.

Doubtful Loans. Where repayment under existing conditions is considered doubtful, an unsecured or partially secured loan is more than 90 days overdue, or a fully secured loan is more than 120 days overdue: 50.0%.

Loss Loans. Where the borrower is insolvent, payments are overdue by more than 150 days, or anticipated recoverable amounts are so small that collection efforts will be more expensive: 100.0%.

Where a single borrower has received several loans from a bank, each loan may be categorised individually based on the underlying collateral.

Losses should be recognised in the reporting period in which they are identified as being non-collectable and they should be written off the balance sheet for that period. After loans are written off the books, they should remain on an off-balance-sheet account for five years while the bank makes diligent efforts to collect past due interest and principal.

Reporting Requirements

All banks are subject to inspection by the FSA. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions. Banks are required to submit annual external audit reports to the FSA and to publish annual financial statements and audit results in the press.

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for such implementation has been established.

Regulation of Commercial Bank Employees and Supervisory Board Members

Pursuant to NBG Order No. 234 dated 16 September 2002 (as amended by Order No. 212 dated 30 September 2004, Order No. 241 dated 6 September 2006 and Order No. 33 dated 7 February 2007)**,** all managers and senior personnel of commercial banks must fulfil the following criteria in order to ensure that they are fit for the position:

- each member of the bank's management board, director and deputy director of a branch or similar structural unit must have a university degree in economics, finance, banking, business administration, audit, accounting or law;

- the chief accountant and deputy chief accountant of the bank and of each branch must have a university degree in economics, finance, banking, business administration, auditing or accounting;

- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the banking and finance sectors, including two years as a senior manager (head or deputy head of a structural unit);

- the director and deputy director of a branch and the head and deputy head of a department (service centre) of a bank must have relevant qualifications and professional experience and at least three years' experience in the banking and finance sectors, including one year as a senior manager (head or deputy head of a structural unit);

- the chief accountant and deputy chief accountant of the bank must have at least three years' experience working in the banking and finance sectors;

- the chief accountant and deputy chief accountant of a branch must have at least two years' experience working in the banking and finance sectors;

- a person to be appointed to the office of manager or senior personnel may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depository institution – credit union or a member of the management board or other senior officer of any other enterprise;

- there should not be a request from the regulator to the supervisory board and/or the management board of a bank with respect to dismissal of the person to be appointed to such office from his/her current position;

- no member of the management board may be the spouse, child or other close relative of another member of the same bank's management board; and

- the chief accountant and deputy chief accountant of the bank or any branch of the bank may not be the spouse, child or close relative of a member of management board of the same bank or the same branch.

According to the Banking Law, a person may not serve as a member of the management board of a bank if he or she (a) does not meet the compliance criteria applicable to a director of a bank (described above); (b) is not authorised to hold a seat in the management board pursuant to law; (c) has been declared bankrupt; or (d) is a spouse, child or a close relative of a member of the management board of the same bank.

As an additional requirement, no one who: (a) has been declared legally incapable by the court; (b) has been convicted of legalisation of illicit income and/or terrorism financing; (c) has no relevant education and/or experience; (d) is a director/senior officer or a member of the supervisory board of another commercial bank (except when this other bank is controlling or controlled by the bank); or (e) has been convicted of an economic crime, may be a manager or senior officer of a bank.

The compliance criteria listed in (a) to (e) in the paragraph above also apply to the members of the supervisory board of a bank. Furthermore, no person may be elected to the supervisory board of a bank who: (a) is a member of the supervisory board or the management board of more than seven enterprises registered in Georgia; (b) is a director/senior officer or a member of the supervisory board of another commercial bank registered in Georgia (except when this other bank is controlling or controlled by the bank); (c) is not authorised to hold a seat in the supervisory board pursuant to law; or (d) has been declared bankrupt.

Regulation of Commercial Bank Shareholders

Pursuant to the Banking Law, a person who has been convicted of legalisation of illicit income, terrorist financing or economic crime, may not hold a significant shareholding (defined as more than 10.0% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from, the FSA. Generally, the FSA should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the FSA, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to the FSA or despite the FSA's refusal, is deemed to be null and void.

If there are grounds for suspicion, the FSA may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the FSA is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his shareholding to 10%.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. See "Description of Share Capital and Certain Requirements of Georgian Law—Reporting Obligations Related to Significant Ownership of Shares".

Regulatory Capital

The current minimum regulatory capital requirement for commercial banks as established by the NBG Order No. 144 dated 23 May 2006, is GEL 12.0 million. Under Georgian law, a commercial bank's "regulatory capital" comprises the sum of its Tier I and Tier II capital, as defined in the FSA Order no. 9 dated 30 September 2008.

This relatively high regulatory capital requirement was intended by the NBG to encourage further consolidation in the Georgian banking sector, through the merger of small banks or their takeover by medium or large banks. The FSA is responsible for implementing anti-monopoly policy with respect to mergers and takeovers in the banking sector. The FSA has not set any limitations on the number of banks in the market and any investor which can meet the minimum regulatory capital requirements and satisfy all other requirements is eligible to receive a banking licence.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income (the "**Anti-Money Laundering Law**" or "**AML Law**") was adopted in June 2003 and came into force on 1 January 2004. The AML Law strengthened control over the movement of funds within Georgia and introduced a new independent public law entity, the FMS, to monitor and supervise anti-money laundering measures and to issue orders setting out further preventative measures and reporting requirements that should be complied with. The FMS operates as an independent body under the auspices of the NBG. The FMS conducts its activities in close cooperation with MONEYVAL (the anti-money laundering body of the Council of Europe, of which Georgia is a member) and in accordance with the Financial Action Task Force recommendations and EU directives, notwithstanding the fact that Georgia is not a member of either of the latter two bodies.

Under the AML Law, all banks are obliged to monitor and report to the FMS all suspicious transactions, irrespective of value, and certain types of transactions listed in the AML Law if the value of a transaction, or any group of transactions (where one transaction has been broken down into several component transactions), exceeds GEL 30,000 (or the foreign currency equivalent). If the FMS receives a report of a transaction that it believes may be related to the laundering of illicit income or the financing of terrorism, the report must be forwarded to the appropriate departments of the Office of the Prosecutor General of Georgia and the Ministry of Internal Affairs of Georgia.

In 2005, the FMS submitted to Parliament draft amendments to the Criminal Code of Georgia and the Criminal Procedure Code of Georgia. The amendments assure the compliance of Georgian legislation with the Council of Europe Strasbourg Convention of 1990 on "Laundering Search, Seizure and Confiscation of the Proceeds of Crime". These amendments were adopted by Parliament in December 2005.

While Georgia currently has no statutory KYC regulations, the NBG has formally requested that banks conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. Most banks employ compliance officers who adhere to CPEBS in practice. In its Georgian Banking System Development Strategy for 2006-2009, the NBG had proposed to introduce a mandatory KYC policy. As of the date of this Prospectus, a mandatory KYC policy has not yet been implemented.

The FSA is authorised to carry out on-site inspections of anti-money laundering issues and has dedicated budget and personnel to carry out such inspections and report to the FMS on breach of any anti-money laundering regulations.

Insolvency Regime

The FSA is entitled to revoke the banking licence of any bank that becomes insolvent. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law. During the liquidation period, any secured claims will be repaid to the bank's creditors in accordance with the terms of the relevant security agreement (up to the value of the security). All other legitimate claims will be settled in the following order:

- *first*: all claims of the FSA and other lenders which arose after revocation of the bank's licence;
- *second*: deposits of natural persons up to GEL 1,500;
- *third*: deposits of natural persons not paid under the second item above;
- *fourth*: all other deposits;
- *fifth*: all other claims against the bank; and

- *sixth*: any necessary and reasonable costs incurred by the FSA.

If the available funds are insufficient to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims shall be paid on a pro-rata basis.

Deposit Insurance

There is currently no mandatory deposit insurance scheme in Georgia. According to the Georgian Banking System Development Strategy for 2006-2009, the NBG had plans to introduce mandatory deposit insurance in order to enhance public trust in the Georgian banking sector. As of the date of this Prospectus, a mandatory deposit insurance scheme has not been implemented and no timetable exists as to when such a mandatory scheme will be introduced. It is anticipated that certain banks with insufficient financial strength would need to be closed or merged before the introduction of the scheme to minimise the risk of immediate depletion of the deposit insurance fund.

Reform of the Banking Sector

In its Georgian Banking System Development Strategy for 2006-2009, the NBG had set out a number of objectives which it considered to be important to the further development of the banking system in Georgia. Some of the key targets for 2009 included: (i) the development of a mandatory deposit insurance system to insure all deposits in the amount of GEL 3,000-5,000 (or the foreign currency equivalent); (ii) the creation of a credit history agency; (iii) the amendment of the Banking Law to improve compliance criteria for significant shareholders in Georgian banks (holding 10% or more); (iv) application of prudential regulations in a manner consistent with Basel Standards; (v) improvement of the principles of capital adequacy calculation; and (vi) amendment of legislation to develop financial and capital markets. The NBG and then the FSA, when it succeeded the NBG in its role as the regulator of the banking sector, have taken certain steps aimed at implementing targets listed in items (iii)-(vi); however, a lot remains to be achieved in this regard. The FSA has not yet issued a document describing the banking system development strategy for the coming years.

DESCRIPTION OF BUSINESS

Overview

Bank of Georgia is the largest bank in Georgia based on total equity (with a 39.0% market share), total assets (with a 33.6% market share), total loans (with a 31.5% market share) and total deposits (with a 27.5% market share) as of 30 June 2009, each ranking and market share according to information published by the NBG/FSA based on standalone financial information filed with the FSA by Georgian banks. These market shares compare to a 40.0% market share by total equity, a 32.9% market share by total assets, a 32.9% market share by total loans and a 28.8% market share by total deposits as of 31 December 2008 and a 34.1% market share by total equity, a 35.2% market share by total assets, a 32.7% market share by total loans and a 31.4% market share by total deposits as of 31 December 2007. The Bank is the successor to state-owned Binsotsbank, which was privatised in 1994. The Bank's headquarters are located in Tbilisi.

The Bank is a leader in the Georgian retail banking market, serving approximately 695,000 retail clients as of 30 June 2009. The Bank's retail banking products and services currently include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans and overdrafts), deposit accounts (including current accounts, term deposits and demand deposits), credit cards and other bank card products and services, ATM services, Internet, telephone and SMS banking, utilities and other recurring payments, money transfers and remittances, standing orders, direct debit services for wages and other monetary entitlements and other retail banking services. As of 30 June 2009, Bank of Georgia had one of the largest distribution network in Georgia, with 140 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 394 ATMs, a universal remote banking platform and a state-of-the-art call centre.

The Bank is also a leader in the Georgian corporate banking market, serving approximately 80,000 legal entities as of 30 June 2009. The Bank's corporate banking products and services consist primarily of current and deposit accounts, account administration and cash management services, payroll services and corporate lending, as well as a range of trade finance operations, foreign exchange transactions and leasing services. The Bank provides loans and other credit-related products in Lari and foreign currencies, principally U.S. dollars, to its corporate clients, including overdraft facilities, revolving lines of credit and bank guarantees. The Bank's corporate clients include large corporates, as well as small and medium-size companies and governmental entities.

The Bank, through its wholly-owned insurance subsidiary, Aldagi BCI, is a leading insurance provider in Georgia and had approximately a 19.6% market share based on gross written premiums as of 31 March 2009, according to information published by the NBG/FSA.

The Bank provides brokerage and investment banking services in the Principal Markets, through its subsidiaries GTS, GTSU and GTSB. The Bank's asset management business consists of GTAM, which provides asset management services to retail and institutional clients, as well as Liberty Consumer, Georgia-focused investment company managed by GTAM, in which the Bank holds a 65% stake.

In addition to its operations in Georgia, the Bank provides retail banking and corporate banking services in Ukraine and Belarus, through its subsidiaries BG Bank and BNB, respectively.

As of 31 December 2008, the Bank's total assets were GEL 3,258.9 million (U.S.$1,955.0 million), the Bank's total equity was GEL 718.8 million (U.S.$431.2 million) and the Bank's net income for the year ending on 31 December 2008 was GEL 0.17 million (U.S.$0.1 million).

Bank of Georgia was awarded the *Best Bank In Georgia Award for Excellence* in each of 2005, 2006, 2007, 2008 and 2009 by Euromoney, *Best Bank in Georgia* for each of 2006, 2007 and

2008 by The Banker and was named the *Best Bank in Georgia*, *Best Trade Finance Bank in Georgia* and *Best Foreign Exchange Provider* in each of 2007, 2008 and 2009 and the *Best Bank in Georgia* in 2008 and 2009 by Global Finance Magazine.

History and Development

Bank of Georgia traces its roots to 1903 and is the successor to the state-owned Binsotsbank, which was privatised in 1994. In the period of over 15 years since its privatisation, Bank of Georgia has undergone several stages of development.

In the mid-1990s, Bank of Georgia received a number of credit lines from EBRD, IFC, DEG and other international financial institutions to fund its growth. In 2000, EBRD acquired a 13.7% shareholding in Bank of Georgia, and in 2001, DEG acquired an 11.1% shareholding in Bank of Georgia. In 2001, Bank of Georgia became the first company to list its securities on the GSE.

In December 2003, Bank of Georgia acquired a 35.0% equity interest in GTS, which was increased to 53.0% in 2004 and 100.0% in 2005. In 2004, Bank of Georgia's senior management was replaced. In October 2004, the Bank's restructured management team began to revitalise and modernise the Bank. Under its new management, the Bank has grown more than eight times in asset size, diversified its revenue streams, made several successful acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank revised its credit, loan loss provisioning and human resources policies.

In late 2004, the Bank made several strategic acquisitions. In November 2004, Bank of Georgia increased its shareholding in JSC Georgian Card ("**Georgian Card**") from 19.6% to 50.3% and subsequently increased its shareholding to 55.5%, which enabled the Bank to invest intensively in the upgrading of its plastic card business, which Management believes is a key area for retail banking. In December 2004, Bank of Georgia acquired JSC TbilUniversalBank ("**TUB**"), the ninth largest bank in Georgia at the time, based on total assets and equity and according to information published by the NBG. At the time of the acquisition, TUB owned a 60.0% equity interest in JSC Georgian Leasing Company ("**GLC**"), the second-largest leasing company in Georgia, and an 8.0% equity interest in GTS. Bank of Georgia increased its ownership in GTS and GLC to 100.0% in March 2005 and March 2006, respectively. The acquisition of TUB led to an increase of the Bank's market share and customer base, enabling the Bank to add leasing services to its corporate banking activities and to consolidate its control of GTS.

In late 2004, Bank of Georgia acquired BCI, one of the leading insurance companies in Georgia, offering a broad range of insurance services to both corporate and retail clients. The Bank's presence in the Georgian insurance market was further enhanced in October 2005 when Bank of Georgia and BCI acquired 20.0% and 80.0%, respectively, of EuroPace, which at the time of the acquisition was the ninth largest insurance company in Georgia, based on gross written premiums. The acquisition of BCI resulted in the Bank gaining several experienced new members of its management team.

In February 2006, Bank of Georgia purchased the assets and liabilities of Intellect Bank, which was then under temporary administration by the NBG. At the time of the acquisition, Intellect Bank was the ninth largest bank by assets in Georgia, based on information published by the NBG. Although the asset quality of Intellect Bank was weak, Intellect Bank possessed a highly-developed money remittance business, enabling the Bank to expand its operations through the addition of 14 service centres and increase its customer base by over 25,000 clients. The integration of Intellect Bank enhanced the Bank's retail market share through the addition of approximately 25,000 retail clients, gave the Bank a leading position in money transfers and provided additional cross-selling opportunities.

In October 2006, the Bank established GTSU in Ukraine, and in December 2006, the Bank, through its wholly-owned insurance subsidiary, BCI, acquired Aldagi, a leading insurance company in Georgia. In June 2007, BCI and Aldagi were merged. Aldagi BCI is licensed to carry out life assurance and non-life insurance activities.

In July 2007, the Bank acquired a 100.0% equity interest in Cascade Bank Georgia (subsequently rebranded into JSC Galt & Taggart Bank), one of the smallest banks in Georgia. In June 2008, JSC Galt & Taggart Bank was merged with the Bank and ceased to exist as a legal entity. Following the merger, the Bank became the legal successor of JSC Galt & Taggart Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Combinations".

In October 2007, Bank of Georgia acquired an additional 88.85% equity interest in BG Bank (formerly JSC Universal Bank of Development & Partnership, a mid-sized bank in Ukraine), resulting in a total equity interest of 98.77%. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares, each with a nominal value of UAH 1.00 per share. Following the capital increase, Bank of Georgia's ownership interest in BG Bank increased to 99.35%. As of 30 June 2009, BG Bank, which is headquartered in Kyiv, served 16,563 retail clients and 3,236 corporate clients, through its 18 branches and 33 ATMs that are located in various *oblasts* (regions) of Ukraine. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

In July 2008, Bank of Georgia acquired a 70.0% equity interest in BNB (indirectly through a Belarus entity) and retained an option to acquire the remaining 30.0% equity interest in BNB within three years. As of 30 June 2009, BNB, which is headquartered in Minsk, served 2,467 retail clients and 947 corporate clients, through its four service centres and eight ATMs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

The Bank's Business Operations

For management purposes, the Bank is organised into seven segments: retail banking, corporate banking, insurance, brokerage, asset management, wealth management and a corporate centre (providing back-office services to all business segments of the Bank). For financial reporting purposes, the Bank combines the brokerage, asset and wealth management segments (see Note 6 to the Bank's 2008 Financial Statements for more detail). While retail and corporate banking services are carried out by Bank of Georgia as well as BG Bank and BNB, the Bank offers its insurance products through Aldagi BCI and conducts its investment banking and brokerage services through GTS and its asset management services through GTAM and Liberty Consumer.

The following table sets forth total operating income attributable to each of the Bank's business segments for the periods indicated.

	For the year ended 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Retail banking	45,092	96,108	192,643	115,563
Corporate[2]	42,069	73,312	115,139	69,070
Insurance	8,599	19,178	32,387	19,428
Brokerage, asset and wealth management	4,397	52,757	4,897	2,938
Corporate centre	14,579	22,764	12,061	7,235
Intercompany elimination	(904)	(19,506)	5,438	3,262
Total	**113,832**	**244,613**	**362,565**	**217,496**

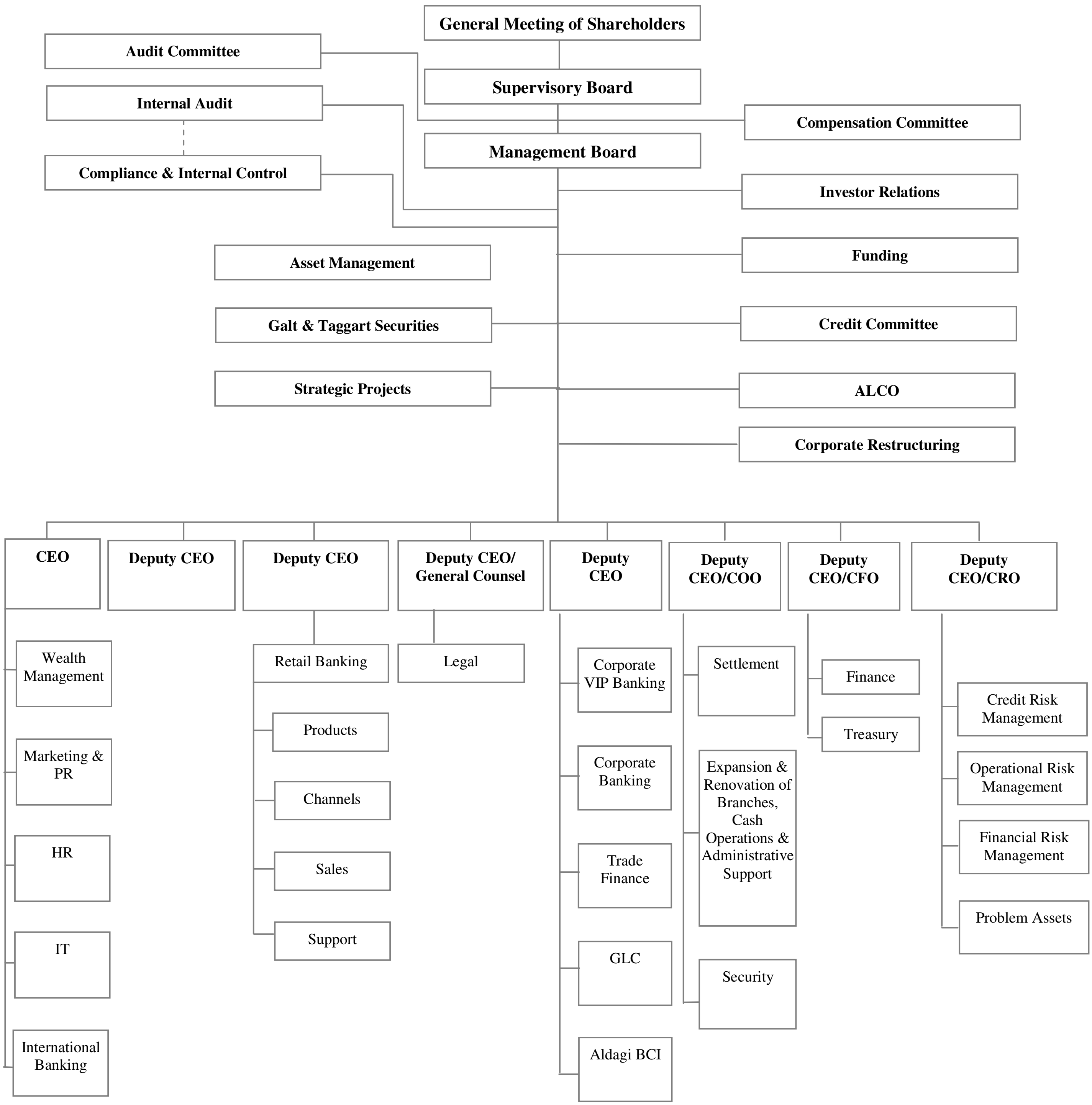
Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Corporate and Investment Banking was renamed Corporate Banking in 2008.

Corporate Structure

The following diagram illustrates the Bank's corporate organisational structure and principal management reporting lines.



Market Position

As of 30 June 2009, there were 20 commercial banks registered in Georgia that have general banking licences enabling them to perform banking transactions. According to information published by the NBG, as of 30 June 2009, the aggregate assets of all banks in Georgia were approximately GEL 7.7 billion, with the five largest banks accounting for approximately 79.3% of such assets.

The following table sets out information on the Georgian banking sector and the five largest banks in Georgia as a group as of the dates indicated. This information is derived from information published by the NBG/FSA, which was compiled from standalone financial information filed by Georgian banks.

	As of 31 December								
	2006			2007			2008		
	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a % of sector	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a % of sector	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a % of sector
	(thousands of Lari, except percentages)								
Total assets	3,387,189	4,217,032	80.3	5,769,602	7,194,823	80.2	7,027,231	8,865,631	79.3
Gross loans	2,230,648	2,675,663	83.4	3,751,736	4,589,328	81.8	4,900,769	5,992,880	81.8
Total deposits	1,912,775	2,327,126	82.2	2,858,175	3,510,296	81.4	2,883,770	3,844,909	75.0
Shareholders' equity	703,700	888,679	79.2	1,074,437	1,458,632	73.7	1,148,457	1,517,255	75.7
Net income	75,085	92,970	80.8	117,196	108,978	107.5	15,131	(215,739)	(7.0)

Source: NBG/FSA.

The largest Georgian banks all have their headquarters in Tbilisi, and the Georgian banking sector has been marked by increased foreign investment and consolidation over the past three years. See "Banking Sector and Banking Regulation in Georgia".

The Bank considers its principal competitors to be TBC Bank, VTB Bank Georgia, Procredit Bank, Cartu Bank, Bank Republic and HSBC.

Despite significant competition in the market, Management believes that the Bank will retain its dominant market position among the top banks in Georgia that offer a wide range of retail and corporate products and services. See "Risk Factors—Risks Relating to the Bank's Business—Competition".

Strengths

Management believes that the Bank has the following competitive strengths:

- *Leading market position*. As of 30 June 2009, Bank of Georgia was the largest bank in Georgia based on total equity (with a 39.0% market share), total assets (with a 33.6% market share), total loans (with a 31.5% market share) and total deposits (with a 27.5% market share), each ranking and market share according to information published by the NBG based on standalone financial information filed by Georgian banks. The Bank has maintained this leading position for nearly three years. Management believes that the Bank has a well-established and recognised brand in Georgia.

- *Diversified product offering and wide distribution network.* Management believes that the Bank currently offers the broadest range of financial products and services of any bank in the Georgian market. Bank of Georgia was the first Georgian bank to introduce, among others, packaged retail products, co-branded cards, credit cards and private banking services. The Bank's diversified product offering enables it to cross-sell products between its retail and corporate client bases and to generate a high level of client loyalty. In addition, the Bank has one of the widest distribution networks in Georgia, which Management believes contributes to its strength in attracting new business and providing a high level of service to existing clients. As of 30 June 2009, Bank of Georgia's distribution network in Georgia included, 140 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 394 ATMs, a universal remote banking platform and a state-of-the-art call centre.

- *Strong brand concept and identity.* In 2007, the Bank engaged Allen International, a UK based integrated strategic design consultancy, to develop the Bank's brand concept and identity and to standardise branch design. As of 31 March 2009, 26 branches and service centres in Georgia have been redesigned pursuant to the Allen International recommendations. In May 2008, the Bank launched a new universal remote banking platform for multiple communication channels (Internet, fixed line and mobile telephone) which enables clients to perform remotely a wide range of transactions, including transfers to and from their accounts in Georgia and abroad, currency conversions, online payments, loan, credit card and debit card applications, blocking and unblocking of cards and setting up standing orders and direct debits, among others. This banking and communications technology is novel in Georgia and currently provides the Bank with a competitive advantage over its competitors.

- *Strong liquidity and regulatory capital*. The Bank was well-capitalised and maintained strong liquidity positions as of 31 March 2009 and 31 December 2008. According to FSA standards, as of March 31 2009, the Bank had a Tier I Capital Ratio of 16.4% and a Total Capital Ratio of 17.4% as compared to a Tier I Capital Ratio of 16.6% and a Total Capital Ratio of 13.5%, as of 31 December 2008, both of which were higher than the minimum requirements of 8% for Tier I Capital and 12% for Total Capital ratios. The Bank had excess capital of GEL 177.5 million as of 31 March 2009. In addition, both BG Bank and BNB maintained strong capital positions, with excess capital of GEL 41.8 million and GEL 30.3 million, respectively, as of 31 March 2009. According to the BIS standards, the Bank had a Tier I Capital Ratio of 22% and a Total Capital Ratio of 31.4% as of 31 March 2009. The Bank also maintains a strong liquidity position, with a liquidity ratio of 37.6% as of 31 March 2009, which is above the FSA requirement of 20%.

- *Experienced management*. The Bank's senior management team is comprised of experienced, primarily western-educated, professionals with significant domestic banking, international investment banking and insurance expertise. Since the changes in the Bank's management team in the fourth quarter of 2004, the Bank has grown more than eight times in asset size, diversified its revenue streams, made several successful acquisitions and expanded its distribution network in line with its strategy, established itself as a borrower in the international markets, attracted new institutional equity investors and increased the Bank's transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank enhanced its credit, loan loss provisioning and human resources policies.

Strategy

Management's overall strategic objective is to maintain the Bank's leading position in the Georgian banking market by focusing on its core business areas (retail banking and corporate banking). In the short to medium term, its priority strategic objectives are to successfully manage the impact of the Conflict and global economic downturn, to enhance the quality of the Bank's services, to improve technology and operational efficiency, as well as to improve risk management policies and procedures in the Principal Markets. The key elements of the Bank's business strategy are set out below.

- *Maintaining its leading position in the Georgian banking market.* The Bank's principal strategic objective is to maintain its position as the leading bank in Georgia by focusing on its core businesses, namely retail and corporate banking. The Bank intends to continue improving and supplementing its retail and corporate banking products and services and upgrading its technology in order to improve customer retention and to maximise average revenues per customer. The Bank is continuously redesigning and enhancing its banking product range with an emphasis on well-designed packaged products. The Bank has launched several new products, including investment deposits, the return on which is linked to the movement of oil and gold prices, as well as deposits linked to currency hedging. Over the next two years, the Bank is considering migrating to a new core banking system which is expected to provide the Bank with a first-mover advantage when introducing new products and offerings, improve customer services and reduce operational and credit risk. See "—Information Technology". In order to focus on its core businesses, the Bank also intends to dispose of non-core assets and concentrate on recovery of non-performing assets.

- *Managing the impact of the Conflict and the global economic downturn*. In response to the Conflict and the global economic downturn in the second half of 2008, the Bank implemented a cost control strategy through the reorganisation of its retail banking business (by closing selected business lines that were most impacted by the decline in lending volumes, terminating less profitable POS lending and mobile sales units as well as merging and downsizing the general consumer and mortgage lending units) and intends to maintain a strong emphasis on cost control within its operations at least until the end of 2009. These measures are intended to improve the efficiency of the Bank.

- *Conservative liquidity management*. The Bank's management goal is to maintain its strong liquidity position in the economic downturn as well as to capture benefit from the flow of international donor funds that were pledged to Georgia within the framework of post-Conflict international financial assistance and rebalance its credit risk policy in line with the challenging market environment.

- *Conservative risk management policies and procedures.* The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems in the Principal Markets. In response to the economic downturn, the Bank amended the Credit Committee approval procedures as well as revised its Credit Policy in December 2008 and later in June 2009 in order to implement stricter lending guidelines, new loan provisioning procedures, and new loan restructuring tools. The Bank also aims to improve the flow of information within the Bank and enhance its internal policies designed to focus Management's attention on developing strategies for responding to potential risk scenarios. See "Risk Management".

- *Integrated approach across the Bank's businesses and geographies*. The Bank plans to achieve closer integration and more efficient cooperation between its banking businesses in the Principal Markets. Management expects to achieve this integration by strengthening its group management structure, establishing cross-border client service teams, and closer cooperation of back office functions, such as budgeting and reporting, risk management, compliance, internal audit, funding and treasury. The Bank believes that the combination of its leading market position in Georgia and its banking presence in Ukraine and Belarus, ideally positions the Bank to capture a sizeable market share of trade finance flows between these countries. The Bank's investment banking presence in these countries also enables the Bank to offer additional services to its clients.

Banking Products, Services and Activities

Retail Banking

The Bank offers a wide range of retail banking products and services. As of 31 December 2008, the Bank's loans to retail banking clients were GEL 1,030.0 million (U.S.$617.9 million), or 48.0% of the Bank's total gross loans, as compared to GEL 703.9 million and GEL 280.0 million as of 31 December 2007 and 2006, respectively. As of 31 December 2008, the Bank's current accounts, term deposits and demand deposits from retail clients were GEL 405.1 million (U.S.$243.0 million), or 34.0% of the Bank's total amounts owed to clients, as compared to GEL 499.6 million and GEL 220.4 million at 31 December 2007 and 2006, respectively. The significant growth in the Bank's retail banking business over the period from 2006 to 2008 is primarily the result of the expansion of the Bank's retail customer base, its emphasis on the sale of packaged products, extensive co-branding, the increased demand for payroll services from corporate clients and the improving financial position of the Bank's retail clients. In December 2008, Bank of Georgia completed the reorganisation of its retail banking business in Georgia as part of its strategic cost control measures in response to the recent economic downturn. Principal changes in the retail banking business included the closure of POS lending and mobile sales units, as well as the merger and downsizing of the general consumer and mortgage lending units. The Bank regards its retail banking business in Georgia as its key asset and intends to continue to focus on its development in the future.

Retail banking products and services. The Bank's current retail banking activities include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans and overdrafts), deposit taking (including current accounts, demand deposits and term deposits), credit cards and other bank card products and services, ATM services, Internet, telephone and SMS banking, payments of utility, mobile phone and other bills in branches and online, money transfers and remittances, standing orders, direct debit services for wages and other monetary entitlements and other retail banking products services. Since the beginning of 2005, the Bank has launched a series of packaged retail banking products (including Hypo+, Auto+ and Microloan+) and in 2006, started to offer exclusive co-branded products and services with leading retailers and consumer-focused businesses, giving the Bank enhanced access to such retailers' and businesses' client bases and distribution networks. In 2008, the Bank launched several new products, including investment deposits, the return on which is linked to the movement of oil and gold prices as well as deposits linked to currency hedging. As of 30 June 2009, the Bank's retail banking customer base included approximately 165,000 individuals who are employees of companies that receive payroll services as part of the Bank's corporate banking business. In 2008, the Bank launched several new products, including investment deposits, the return on which is linked to the movement of oil and gold prices as well as deposits linked to currency hedging.

Deposit taking from retail clients. Retail deposits include current accounts and savings accounts that pay interest. The Bank's current accounts consist of "universal accounts" and "standard accounts", both of which are multi-currency accounts. Universal accounts are the same as standard accounts but are also linked to a debit card and permit online account management. The Bank charges fees on its current accounts in amounts of GEL 1.00 for universal accounts and GEL 1.50 for standard accounts per account per month. Additional fees are charged for SMS banking, standing orders and direct debit services. Fees are typically waived or reduced for clients in payroll programmes. As of 31 December 2008, the Bank's current accounts, demand deposits and time deposits from retail clients were GEL 405.1 million (U.S.$243.0 million), or 34.0% of the Bank's total amounts owed to clients, as compared to GEL 499.6 million and GEL 220.4 million as of 31 December 2007 and 2006, respectively. The decrease of deposits in Georgia in 2008 was primarily the result of retail and corporate deposit withdrawals during the Conflict and economic slowdown. The decrease of deposits in Ukraine was attributed to the worsening of the economic environment, crisis of the Ukrainian banking system and the devaluation of Ukrainian Hryvnia against the Georgian Lari.

The following table sets out information on the Bank's deposits from retail banking clients as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Total amount owed to retail customers[2]..........	220,384	499,629	405,110	243,018

Notes:
(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.
(2) Total amounts owed to retail customers includes current accounts, term deposits and demand deposits to the Bank's retail banking customers. This item does not include loans to individuals who are clients of the Bank's private banking business. See "—Asset and Wealth Management". This item includes deposits from the Bank's micro-financing loan customers (non-individuals), which are classified as retail banking deposits by the Bank.

Retail lending. The Bank has significantly increased the size of its retail loan portfolio to GEL 1,030.0 million (U.S.$617.9 million) as of 31 December 2008, compared to GEL 703.9 million and GEL 280.0 million as of 31 December 2007 and 2006, respectively. As of 31 December 2008, retail loans comprised approximately 48.0% of the Bank's total loans to clients.

The following table sets out the Bank's retail banking loan portfolio by type of loan for the dates indicated.

	As of 31 December						
	2006		2007		2008		
	(thousands of Lari)	*(% of total retail banking loans)*	*(thousands of Lari)*	*(% of total retail banking loans)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]	*(% of total retail banking loans)*
Micro-financing loans[2].....	101,369	36.2%	152,436	21.7%	151,313	90,770	14.7%
Mortgage loans[3]..............	65,041	23.2%	213,586	30.3%	356,830	214,055	34.6%
General consumer loans[3]...............................	50,402	18.0%	145,060	20.6%	192,461	115,454	18.7%
Pawn loans........................	26,979	9.6%	28,158	4.0%	46,374	27,819	4.5%
POS loans	22,412	8.0%	62,481	8.9%	39,618	23,766	3.8%
Automobile loans[3]...........	9,870	3.5%	37,862	5.4%	82,588	49,543	8.0%
Other (including overdrafts)[4]......................	3,901	1.5%	64,286	9.1%	160,800	96,460	15.7%
Total retail loans	**279,974**	**100%**	**703,869**	**100.0%**	**1,029,984**	**617,867**	**100.0%**

Notes:
(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.
(2) Includes micro-financing loans made to small private enterprises (non-individuals), which are considered retail banking loans by the Bank.
(3) Excludes loans to its private banking clients as part of its asset and wealth management business.
(4) "Other" comprises average balances on credit cards, overdrafts and certain consumer loans with terms that deviate from the standard terms used for the Bank's general consumer loans and overdrafts.

The Bank's retail lending products primarily comprise:

- *Micro-financing loans.* The Bank offers micro-financing loans to entrepreneurs and small businesses. In 2005, the Bank extended the maximum maturity of its micro-financing loans to six years. In 2005, the Bank introduced MicroLoan+, a packaged product tailored to the needs of micro- and small-sized business owners. In response to the economic slowdown, the Bank decreased the maximum maturity of its micro-financing loans from six to three years and suspended the issuance of unsecured micro-financing loans. As of 31 December 2008, the Bank had approximately GEL 151.3 million (U.S.$90.8 million) in micro-financing loans outstanding, accounting for approximately 13.9% of the Bank's total retail and private banking loans.

- *Mortgages.* In 2000, the Bank launched its mortgage programme, which was the first such programme established in Georgia. The Bank's mortgage loans can be offered for up to 10 years for the purchase or renovation of real estate. Such loans are secured by a pledge of the real estate being purchased or a pledge of alternative property or other collateral. In 2005, the Bank introduced Hypo+, a packaged product, which is the first ever flexible offset mortgage available to home buyers in Georgia. In response to the economic downturn, the Bank introduced stricter terms for mortgage lending. As of 31 December 2008, the Bank had approximately GEL 356.8 million (U.S.$214.1 million) in retail banking mortgage loans outstanding, or approximately 32.9% of retail and private banking loans. The Bank additionally provides mortgages to private banking clients as part of its wealth management business.

- *General consumer loans.* General consumer loans are offered as fixed-term, fixed-instalment loans to be used for general purposes. In response to the economic slowdown, the Bank reduced its consumer lending operations and capped the maximum principal amount of a consumer loan at GEL 10,000 and maturity to five years. As of 31 December 2008, the Bank had approximately GEL 192.5 million (U.S.$115.5 million) in general consumer loans outstanding, or approximately 17.7% of total retail and private banking loans. The Bank additionally provides general consumer loans to its private banking clients as part of its wealth management business.

- *Pawn loans.* Pawn loans are loans made to retail clients that are secured by precious metals and gems deposited by the customer. Pawn loans are offered as fixed-term loans to be used for general purposes and may be given for a period up to three months with a right of extension at the end of the period. As of 31 December 2008, the Bank had approximately GEL 46.4 million (U.S.$27.8 million) in pawn loans outstanding, accounting for approximately 4.3% of the Bank's total retail and private banking loans.

- *POS loans*. Point-of-sale, or POS, loans are express loans offered for consumer goods sold at merchant stores. Such loans are secured by a pledge of the goods purchased with the loan. In December 2008, the Bank suspended the issuance of new POS loans as part of the reorganisation of its retail banking business. As of 31 December 2008, the Bank had approximately GEL 39.6 million (U.S.$23.8 million) in POS loans outstanding, accounting for approximately 3.6% of the Bank's total retail and private banking loans.

- *Automobile loans.* The Bank has agreements with various automobile dealers in connection with providing loans for the purchase of fully-insured vehicles. As of 31 December 2008, the Bank had signed 33 agreements with automobile dealers and the Bank maintains a physical presence at 11 dealers. Such loans are secured by a pledge of the purchased vehicle. In 2005, the Bank introduced Auto+, an automotive loan package now offered at most major automobile dealers, providing a convenient long-term instalment payment option to automobile buyers. In response to the economic slowdown, the Bank introduced stricter terms for its automobile loans and capped the maximum maturity of automobile loans at five years.

As of 31 December 2008, the Bank had approximately GEL 82.6 million (U.S.$49.5 million) in automobile loans outstanding, approximately 7.6% of the Bank's total retail and private banking loans. The Bank additionally provides automobile loans to private banking clients as part of its wealth management business.

Plastic banking cards. The Bank issues debit cards, often with overdrafts, to its retail clients in conjunction with universal current accounts as well as credit cards. The Bank's plastic banking card business has grown to over 667,000 cards outstanding as of 31 December 2008, from 646,632 and 286,181 outstanding as of 31 December 2007 and 2006, respectively.

In line with the Bank's general strategy of targeting clients at various income levels, the Bank offers a range of international debit cards which are designed for different categories of retail clients: Maestro, VISA Electron, VISA Classic and MasterCard Classic (for middle income retail clients) and VISA Gold and MasterCard Gold (for high income retail clients). The Bank also offers overdraft facilities and a variety of additional services to banking card holders, including direct debit, direct payment of bills, ATM services, SMS banking, telephone banking and Internet banking. In October 2006, the Bank began offering credit cards to existing clients with good credit histories. The Bank started to offer credit cards to a wider group of clients, and to the general public in the first half of 2007. The Bank's credit cards include Orange card, Populi Credit (co-branded card with Georgia's leading supermarket chain) and Zgarbi Credit (co-branded card with one of Georgia's leading pharmacy chains). In December 2008, Bank of Georgia became an exclusive partner of American Express in Georgia. Management believes that the Bank's growing credit card offering will serve as a substitute for POS lending and other general consumer lending products that were suspended or reduced in December 2008.

Bank of Georgia was a co-founder of Georgian Card, the first plastic banking card processing centre in Georgia, which was established in 1996. Georgian Card is currently 55.5% owned by Bank of Georgia. Georgian Card currently services Bank of Georgia's plastic banking card operations in addition to the plastic banking card operations of four other banks. Within the last two years, the Bank has invested significantly in the upgrading of Georgian Card's platform, which now utilises Transmaster card processing software developed by TietoEnator. Income generated from Georgian Card is reflected in "other operating income" in the Financial Statements.

Internet, telephone and SMS banking. The Bank offers access to its retail banking products and services through the Internet, allowing clients to make interbank payments to companies or individuals, monitor account balances, transfer funds (within the Bank and to third party accounts), order plastic banking cards and open accounts. The Bank also offers an SMS-based mobile banking service, allowing automatic delivery of transactional information to clients' mobile phones and selected SMS-based client queries.

Call centre. Since August 2005, the Bank has operated a 24-hour state-of-the-art customer service call centre to provide its retail banking clients with assistance. As of 31 December 2008, the call centre employed 50 employees and is accessible to clients by telephone and electronically.

Corporate Banking

The Bank is a leader in the Georgian corporate banking market based on corporate customer deposits, with a market share of approximately 40% as of 31 December 2008, according to information published by the NBG, and Management believes the Bank has the second largest corporate loan portfolio among Georgian banks. The Bank operates an integrated client coverage model for its corporate clients, whereby each significant client is assigned a dedicated relationship banker who facilitates and coordinates the client's interaction with the Bank's product specialists, including in the areas of lending, investment banking, trade finance to corporate clients, leasing, insurance and retail banking (with respect to payroll services). The Bank offers combined packages of products and services to its corporate clients, enabling such clients to reduce their banking costs and increase efficiency while at the same time generating more sales for the Bank.

As of 31 December 2008, the Bank's loans to corporate banking clients were GEL 1,060.1 million (U.S.$636.0 million), or 49.4% of the Bank's total loans to clients gross of allowance for loan impairment, as compared to GEL 956.5 million and GEL 403.3 million as of 31 December 2007 and 2006, respectively. As of 31 December 2008, the Bank's current accounts, demand deposits and term deposits from corporate banking clients were GEL 675.3 million (U.S.$405.1 million), or 56.6% of the Bank's total amounts owed to clients, as compared to GEL 776.2 million and GEL 320.5 million as of 31 December 2007 and 2006, respectively.

Corporate banking products and services. The Bank's corporate banking products and services consist primarily of deposit accounts, account administration and cash management services, payroll services and corporate lending, as well as a range of trade finance operations, foreign exchange transactions and leasing services. The Bank provides loans and other credit-related products in Lari and foreign currencies, principally U.S. dollars, to its corporate clients, including overdraft facilities, revolving lines of credit and bank guarantees. The Bank's corporate clients include large corporates as well as small and medium-size enterprises ("**SMEs**") and governmental entities. The Bank provides investment banking and brokerage services through GTS.

Corporate lending. The Bank's corporate lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines, overdrafts and SME loans. The Bank offers a wide range of corporate loans in Lari and foreign currencies, principally U.S. dollars, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. Approximately 16% of the Bank's corporate loans to clients are working capital revolving credit lines, with a majority of such loans being of maturities of one year or less. Subject to general economic conditions, as demand for longer-term financing from existing clients and other high credit quality corporate borrowers increases, the Bank intends to increase its maturity limits commensurate with the availability of longer-term funding.

The following table sets out the Bank's corporate loan portfolio by economic sector of borrower as of the dates indicated.

	As of 31 December						
	2006		2007		2008		
	(thousands of Lari)	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]	*(% of total corporate banking loans)*
				(Unaudited)			
Financial institutions....	600	0.1%	5,447	0.6%	4,457	2,674	0.4%
Telecommunications, media and technology..	3,222	0.8%	3,792	0.4%	10,506	6,302	1.0%
Foreign organisations[2]............	9,764	2.4%	11,537	1.2%	2,163	1,297	0.2%
Consumer goods	48,921	12.1%	147,292	15.4%	145,288	87,155	13.7%
Retail and wholesale trade	72,740	18.0%	214,015	22.4%	286,098	171,625	27.0%
Industry and state[3]......	24,586	6.1%	79,574	8.3%	93,101	55,850	8.8%
Energy.........................	30,457	7.6%	113,983	11.9%	120,537	72,308	11.4%
Transport and logistics.......................	15,425	3.8%	196	0.0%	2,249	1,349	0.2%
Construction and real estate	62,958	15.6%	126,535	13.2%	96,019	57,600	9.1%
Pharmaceuticals and healthcare....................	8,896	2.2%	11,403	1.2%	15,259	9,153	1.4%
SMEs	107,619	26.7%	203,267	21.3%	266,089	159,621	25.1%
Other[3]........................	18,118	4.6%	39,496	4.1%	18,367	11,018	1.7%
Total corporate banking loans	**403,306**	**100.0%**	**956,537**	**100.0%**	**1,060,133**	**635,952**	**100.0%**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Foreign organisations include, among others, embassies and local offices of international organisations, supranational organisations and non-profit organisations.

(3) Industry and state includes metals, mining, machinery manufacturing and other heavy industry, as well as government agencies and state owned enterprises.

(4) Other comprises loans to borrowers with diversified business activities that cannot be readily categorised in a particular economic sector.

The Bank's corporate loan portfolio grew to approximately GEL 1,060.1 million (U.S.$636.0 million) as of 31 December 2008, or 49.4% of the Bank's total loans to clients compared to GEL 956.5 million, or 56.1% of total loans to clients, and GEL 403.3 million, or 57.1% of total loans to clients, as of 31 December 2007 and 2006, respectively. For the year ended 31 December 2008, the Bank had interest income from loans and advances to corporate banking clients of GEL 128.2 million (U.S.$76.9 million), compared to GEL 86.5 million and GEL 38.8 million for the years ended 31 December 2007 and 2006, respectively. The Bank's ten largest corporate borrowers accounted for 12% of its total loans to clients gross of allowance for impairment losses as of 31 December 2008 as compared to 16% and 14% of its total loans to clients gross of allowance for impairment losses as of 31 December 2007 and 2006, respectively.

Deposit taking. The Bank offers a range of corporate deposit products, including current accounts, term deposits and demand deposit accounts. As of 31 December 2008, the Bank had a total of GEL 675.3 million (U.S.$405.1 million) in current accounts, term deposits and demand deposits from corporate clients, representing 56.6% of the Bank's total amounts owed to clients as of that date, as compared to GEL 776.2 million and GEL 320.5 million at 31 December 2007 and 2006, respectively.

The following table sets out the Bank's total amounts owed to corporate banking clients:

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	(thousands of Lari)	(thousands of Lari)	(thousands of U.S. dollars)(1)
Total amounts owed to corporate banking customers(2)	320,481	776,228	675,289	405,092

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Total amounts owed to corporate banking customers includes current accounts, term deposits and demand deposits to the Bank's corporate banking customers.

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with the Bank. The employees are able to withdraw multiple currencies using plastic payroll cards, all of which are part of either the MasterCard or VISA International system, at any branch of the Bank and any ATM domestically or internationally that accepts VISA or MasterCard cards. The Bank currently offers payroll services to over 1,100 companies. In addition to the fees which the Bank charges its corporate clients for providing payroll services, the payroll services and corporate cards provided by the Bank to its corporate clients generates income for the Bank's retail banking segment. As of 30 June 2009, the Bank's retail banking customer base included approximately 165,000 individuals who are employees of companies that receive payroll services as part of the Bank's corporate banking business. See "—Retail Banking—Retail Banking Products and Services".

Trade finance. The Bank has conducted trade finance operations since 1996. The Bank's trade finance products include the provision of pre-export financing, import financing, issuing and confirming letters of credit and stand-by letters of credit, as well as the provision of guarantees. As of 31 December 2008, the Bank had trade finance limits from non-resident banks amounting to GEL 179.5 million (U.S.$107.4 million), from EBRD, Commerzbank, UBS, Citibank, Sumitomo Mitsui Banking Corporation, BNP Paribas, Ziraat Bank, IFC, Fortis Bank, RZB and Kazkommertsbank. In September 2008, Bank of Georgia became the first Georgian bank to join IFC's Trade Finance Program, which provided the Bank with a trade finance line of U.S.$.20.0 million for issuing guarantees against its clients' trade transactions. As of 31 December 2008, the Bank had export credit agency covered limits of U.S.$ 20.0 million and EUR 10.5 million from export credit agencies, such as US Export-Import Bank, SACE, Euler Hermes (AKA Bank), EGAP (Czech Export Bank) . As of 31 December 2008, trade loans outstanding related to post-import financing and long-term financing amounted to GEL 27.9 million (U.S.$16.8 million).

Leasing services. The Bank provides leasing services through its wholly-owned leasing subsidiary, GLC. Management believes that GLC is the second-largest leasing company in Georgia based on the size of its lease portfolio. The acquisition of GLC in 2004 has enabled the Bank to offer leasing services to its corporate clients and has provided cross-selling opportunities with other corporate banking products and services and insurance products and services.

Insurance

The Bank provides insurance-related products and services through its wholly-owned subsidiary, Aldagi BCI. Aldagi BCI is licensed to carry out life assurance and non-life insurance activities.

According to the FSA, Aldagi BCI is a leader in the Georgian insurance market with a market share of approximately 19.6%, based on gross premiums written as of 31 March 2009, compared to a 23.0%, 35.1% and 20.0% market share as of 31 December 2008, in 2007 and 2006, respectively. Aldagi BCI provides a wide range of corporate and consumer insurance and related products in four areas: property and casualty; liability, including general third party liability, motor third party liability, carriers' liability, professional indemnity, bankers' blanket bond, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life assurance; and performance bonds and guarantees. Aldagi BCI cross-sells its insurance products with the Bank's retail banking and corporate products.

Aldagi BCI cooperates with a number of internationally renowned reinsurers such as Hannover Re., Munich Re., AIG, Lloyd's and SCOR, among others, and adheres to strict reinsurance policies. Aldagi BCI operates Aldagi BCI Assistance, a 24-hour telephone helpline for its health insurance clients.

The overall size of the Georgian insurance (life and non-life) market measured by gross written premiums, is estimated at approximately GEL 270.8 million (U.S.$162.4 million) for the year ended 31 December 2008. Management believes that the Georgian insurance market, which according to the FSA has an insurance penetration rate (as measured by gross written premiums as a percentage of GDP) of 0.5% of Georgian GDP as of 31 December 2008 based on gross written premiums, has the potential for rapid growth over the next several years, with the health insurance, property insurance, liability insurance and, eventually, life assurance and pensions segments in particular expected to undergo significant growth.

Wealth Management

The Bank's wealth management business consists of private banking services that are generally offered to affluent resident and non-resident clients. As of 31 December 2008, the Bank's current accounts, demand deposits and term deposits from private banking clients were GEL 112.7 million (U.S.$67.6 million), or 9.4% of the Bank's total amounts due to customers, as compared to GEL 79.6 million and GEL 18.8 million as of 31 December 2007 and 2006, respectively.

The following table sets out the total amounts owed to private banking clients.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Total amounts owed to private banking customers[(2)]	18,781	79,619	112,725	67,621

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Total amounts owed to private banking customers includes current accounts, time deposits and demand deposits to the Bank's private banking customers. This item does not include loans to individuals who are clients of the Bank's retail banking business.

The Bank's private bankers are trained to identify the specific needs of their clients and to offer a variety of financial and insurance products and a high level of personalised service. The Bank's core private banking product is the multi-currency OneCard, which is designed to replace all of the current and savings account needs of the client with a single packaged product. The OneCard enables cardholders to link the same card to up to five accounts in different currencies (including GEL, U.S. dollars, Euros and Pounds Sterling), with comprehensive online and SMS banking functionality, a high interest rate on daily balances in all currencies, unrestricted spending/withdrawal limits similar to that of a regular current account, expeditious credit line/overdraft approval, health and life insurance through Aldagi BCI, and financial planning and portfolio management through GTS. The Bank offers its private banking clients Visa, MasterCard, American Express Charge Cards (Gold, Platinum and Centurion). The Bank has distribution agreements with American Express with respect to American Express Cards. The Bank also offers financial planning and lifestyle management services to its private banking clients.

The following table sets out the Bank's private banking loans by type of loan offered.

	As of 31 December						
	2006		2007		2008		
	(thousands of Lari)	*(% of total private banking loans)*	*(thousands of Lari)*	*(% of total private banking loans)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]	*(% of total private banking loans)*
General consumer loans	1,814	8.0%	16,443	37.2%	13,864	8,317	25.0%
Mortgage loans	17,266	76.5%	22,811	51.6%	34,776	20,861	62.7%
Automobile loans....................	2,266	10.0%	3,016	6.8%	3,405	2,043	6.1%
Other (including overdrafts)[2].........	1,236	5.5%	1,934	4.4%	3,461	2,076	6.2%
Total private banking loans	**22,582**	**100.0%**	**44,204**	**100.0%**	**55,506**	**33,297**	**100.0%**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Other comprises overdrafts, other plastic banking cards and private banking loans with different from standard terms used by the Bank for private banking loans.

Brokerage

The Bank conducts its brokerage and investment banking business in the Principal Markets through its subsidiaries GTS, GTSU and GTSB. GTS provides equity research, execution and capital raising advisory services to private and institutional clients in the Principal Markets. GTS maintains a limited proprietary book of selected equity and fixed income securities, including securities issued by Bank of Georgia.

Asset Management

The Bank's asset management business consists of GTAM, which provides asset management services to retail and institutional clients, as well as Liberty Consumer, a Georgia-focused investment company managed by GTAM, 65% equity interest of which is owned by the Bank. Through Aldagi BCI, the Bank operates a defined contribution pension scheme (the "**BCI Pension Scheme**"), participation in which is voluntary. The BCI Pension Scheme is offered to both individual clients and the Bank's corporate clients. GTAM is the portfolio manager of the BCI Pension Scheme.

Distribution Network

The Bank has a multi-faceted distribution network, which includes full-service branches, service centres, smaller-scale sales outlets, ATMs, remote banking as well as outlets located at various third party businesses, including, for example, supermarkets and auto dealerships.

Branches

As of 31 December 2008, Bank of Georgia had 151 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, as compared to 117 and 100 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, as of 31 December 2007 and 2006, respectively.

ATMs

Bank of Georgia has the largest ATM network in Georgia as of 31 December 2008, comprising 420 ATMs. Clients can perform cash withdrawals, mobile phone payments, utility payments and person-to-person money transfers at all Bank of Georgia ATMs.

Remote Banking

In May 2008, the Bank launched a new universal remote banking platform for multiple communication channels (Internet, fixed line and mobile telephone) which enables clients to remotely perform a wide range of transactions, including transfers to and from the accounts in Georgia and internationally, currency conversions, online payments, loan, credit card and debit card applications, blocking and unblocking of the cards and setting up the standing orders, direct debit and opening term deposits, among others.

Information Technology

The Bank views information technology ("**IT**") as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. All major computer systems used by the Bank are either clustered or backed up at the Bank's remote data centre. The Bank is considering further enhancements of its redundancy and disaster recovery arrangements. The Bank has modernised its core IT system over the past three years in order to increase its capacity, improve fault tolerance and reduce downtime. The Bank currently utilises a number of sophisticated software solutions, including the Va-Bank core banking system (developed by FORS, a Russian software vendor) based on Oracle technology, an online banking system (developed by INIST, a Russian software vendor) based on Oracle and Java technologies, a CISCO platform for the Bank's call centre and CRIF, a credit-scoring and workflow solution used by the Bank for consumer lending. In the near future, the Bank intends to upgrade its core banking systems to an internationally recognised core banking system. In addition, in 2006, Georgian Card migrated to the Transmaster card processing system (developed by TietoEnator). In 2008, the Bank launched a new universal remote banking platform for multiple communication channels (Internet, fixed line and mobile telephone) based on customised software developed for the Bank by ARBES. SUN Microsystems hardware is used for the database servers of the core banking system and all other applications are operating on HP Intel hardware. The Bank was the first and, to date, the only institution in Georgia to purchase a high-end class server and storage systems. The Bank invested approximately GEL 13.0 million (U.S.$7.8 million) in information technology for the year ended 31 December 2008 as compared to approximately GEL 1.1 million and GEL 2.0 million in the years ended 31 December 2007 and 2006, respectively.

Property

The Bank owns its head office in Georgia, which is located at Freedom Square, 3 Pushkin Street, Tbilisi, Georgia, 0105. The Bank owns and leases the premises used by the Bank and its subsidiaries for banking and other services.

As of 31 December 2008, the total net book value of the real estate and land owned by the Bank was GEL 145.4 million (U.S.$87.2 million).

Intellectual Property

The Bank has registered its principal logos in Georgia. In addition, the Bank has registered all principal domain names related to the Bank's business. In September 2008, the Bank of Georgia applied to WIPO for registration of its logos in all the WIPO member states, except for the United Kingdom, Belarus, Ukraine and Israel for which the Bank has filed individual applications to the relevant patent authorities for the registration of its logos. None of the Bank's intellectual property assets are considered to be material to the Bank's business.

Litigation

From time to time, the Bank is subject to litigation. During the past twelve months there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have or have had in the recent past significant effects on the Bank's financial position or profitability.

FUNDING

The Bank's principal sources of funding are customer accounts, loans and advances from credit institutions and equity funding. The Bank also has issued promissory notes denominated in Lari as well as loan passthrough notes denominated in U.S. dollars. As of 31 December 2008, total amounts owed to clients amounted to GEL 1,193.1 million (U.S.$715.7 million) as compared to GEL 1,355.5 million and GEL 559.6 million as of 31 December 2007 and 2006, respectively. As of 31 December 2008, amounts due to credit institutions amounted to GEL 1,216.7 million (U.S.$729.9 million) as compared to GEL 901.8 million and GEL 224.4 million as of 31 December 2007 and 2006, respectively.

The Bank's funding strategy is to further diversify its funding sources and reduce its funding costs.

The following table sets forth an analysis of the Bank's liabilities as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[1]
Amounts Due to Credit Institutions				
Current accounts	2,920	18,119	17,319	10,390
Time deposits and loans	79,180	62,009	91,389	54,822
Borrowings from international credit institutions	142,281	821,667	1,108,014	664,675
Total amounts due to credit institutions	**224,381**	**901,795**	**1,216,722**	**729,887**
Amounts Due to Customers				
Time deposits	198,482	618,431	580,622	348,304
Current accounts	361,164	737,045	612,502	367,427
Total amounts due to customers	**559,646**	**1,355,476**	**1,193,124**	**715,731**
Debt Securities Issued				
Promissory notes issued	1,073	4,993	5	3
Total debt securities issued	1,073	4,993	5	3
Total banking liabilities[2]	**785,100**	**2,262,264**	**2,409,851**	**1,445,621**
Total income tax liabilities	8,138	37,209	24,394	14,633
Provisions	672	1,003	4,263	2,558
Total other liabilities	44,558	95,144	101,550	60,918
Total liabilities	**838,468**	**2,395,620**	**2,540,058**	**1,523,730**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Total banking liabilities consists of amounts due to credit institutions, amounts due to customers and debt securities issued.

Amounts Due to Clients

Amounts due to clients include current accounts and time deposits from corporate clients and retail clients. Current accounts and deposits from clients decreased to GEL 1,193.1 million as of 31 December 2008 from GEL 1,355.5 million as of 31 December 2007. As of 31 December 2006, the figure was GEL 559.6 million. As of 31 December 2008, amounts owed to clients in the amount of GEL 323.7 million (U.S.$194.1 million) (27% of total gross customer accounts) were attributable to the Bank's ten largest deposit clients.

The Bank accepts deposits in Lari and foreign currencies. As of 31 December 2008, 70.4% of the Bank's total customer accounts were in foreign currencies, principally in U.S. dollars.

The following table provides information on customer current accounts and time deposits balances as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Current accounts	361,164	737,045	612,502	367,428
Time deposits	198,482	618,431	580,622	348,304
Total amounts due to customers	**559,646**	**1,355,476**	**1,193,124**	**715,731**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

The following table sets out customer accounts with the Bank by currency.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Foreign currency deposits(2)	385,642	906,510	839,381	503,528
Lari	174,004	448,966	353,743	212,203
Total amounts due to customers	**559,646**	**1,355,476**	**1,193,124**	**715,731**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2007.

(2) Primarily U.S. dollars.

The following table provides information on amounts owed to clients by type of client as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*(1)
Individuals	273,650	582,991	495,747	297,389
Private enterprises	209,312	662,808	627,049	376,154
State and budgetary organisations	76,684	109,677	70,328	42,188
Total amounts due to customers	**559,646**	**1,355,476**	**1,193,124**	**715,731**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

Amounts Due to Credit Institutions

Amounts due to credit institutions include current accounts and term deposits and interbank loans from the interbank market, which are used by the Bank to manage its short-term liquidity needs, as well as borrowings from international credit institutions as a source of long-term funding. As of 31 December 2008, total amounts due to credit institutions were GEL 1,216.7 million (U.S.$729.9 million), representing 47.9% of the Bank's total liabilities as of that date. Total amounts owed to credit institutions were GEL 901.8 million and GEL 224.4 million as of 31 December 2007 and 2006, respectively.

As of 31 December 2008, 5.6% of amounts due to credit institutions were denominated in Lari and 94.4% were denominated in other currencies, and 33.0% of amounts owed to credit institutions had a maturity of less than one year.

The table below lists the composition of total amounts due to credit institutions as of the dates indicated.

	As of 31 December			
	2006	2007	2008	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of U.S. dollars)*[(1)]
Correspondent accounts	2,920	18,119	17,319	10,390
Time deposits and interbank loans[(2)]	79,180	62,009	91,389	54,822
Borrowings from international credit institutions[(3)]	142,281	821,667	1,108,014	664,675
Total amounts due to credit institutions	**224,381**	**901,795**	**1,216,722**	**729,887**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2008.

(2) Time deposits and interbank loans represent advances from credit institutions used by the Bank to manage its short-term liquidity needs.

(3) Borrowings from international credit institutions include loans from EBRD, IFC, WorldBusiness Capital Inc. ("**WBC**"), OPIC, Merrill Lynch, FMO, Citibank International, BG. Finance B.V, Semper Augustus HBK, Hillside Apex Fund, DEG, Asian Development Bank and others.

Since 1 January 2006, Bank of Georgia has obtained a number of loans from international credit institutions, including commercial banks and international financial institutions. The following are the most significant of these loans:

- In connection with its acquisition of assets and liabilities of Intellect Bank in February 2006, Bank of Georgia obtained an unsecured two-year interest-bearing term loan of GEL 20.0 million from the NBG. The loan was repaid in full in February 2008.

- In February 2006, Bank of Georgia obtained a U.S.$10.0 million, 10-year loan from WBC (with a partial guarantee from OPIC). As of the date of this Prospectus, U.S.$2.8 million of the facility had been repaid.

- In March 2006, Bank of Georgia obtained a U.S.$25.0 million unsecured 18-month term loan from Citigroup. The loan was repaid in full in September 2007.

- In August 2006, Bank of Georgia obtained a U.S.$5.0 million 10-year subordinated loan from a fund advised by Thames River Capital.

- In August 2006, Bank of Georgia obtained a U.S.$25.0 million unsecured one-year term loan from Merrill Lynch. The loan was repaid in full in February 2007 from the proceeds of the loan participation notes due 2012.

- In September 2006, Bank of Georgia obtained a U.S.$25.0 million, 10-year convertible subordinated loan from a fund advised by HBK Capital Management ("**HBK**"). The entire loan was converted into 1,157,407 Bank of Georgia Shares in August 2007, at a 20.0% premium to the offering price of the GDRs in the IPO.

- In December 2006, Bank of Georgia obtained a U.S.$12.5 million seven-year loan from FMO. The facility was disbursed in full in January 2007. As of the date of this Prospectus, U.S.$1.1 million of the Facility had been repaid.

- In April 2007, GLC obtained a U.S.$7.5 million, 10-year loan from WorldBusiness Capital Inc., which was partially guaranteed by OPIC. GLC is required to provide its lease portfolio funded with the facility as collateral to WorldBusiness Capital Inc. According to the terms of the loan, GLC may prepay the loan in whole or in part, subject to prepayment fees. As of 31 December 2008, U.S.$5.2 million of the facility had been disbursed and U.S.$0.8 million of the Facility had been repaid.

- In August 2007, Bank of Georgia obtained a U.S.$35 million, 10-year subordinated loan from Merrill Lynch. The facility was disbursed in full in August 2007.

- In October 2007, Bank of Georgia obtained a U.S.$15 million, 10-year subordinated loan from Semper Augustus B.V., a fund affiliated with HBK. The loan was fully disbursed in October 2007.

- In December 2008, Bank of Georgia obtained a U.S.$65 million, 13-month senior loan from Merrill Lynch International. The loan was repaid in full in January 2009.

- In June 2008, Bank of Georgia obtained a U.S.$30 million, 10-year subordinated loan from FMO and DEG. The facility was disbursed in full in July 2008.

- In December 2008, Bank of Georgia obtained a U.S.$29 million, 10-year senior mortgage facility and a U.S.$10 million, 10-year subordinated loan facility from OPIC. The facilities were disbursed in full in December 2008.

- In December 2008, Bank of Georgia signed agreements with IFC and the EBRD relating to loan facilities in an aggregate amount of U.S.$200 million, comprised of a separate U.S.$100 million financing package on substantially the same terms from each of IFC and EBRD. The U.S.$100 million financing package provided by each of IFC and EBRD is comprised of a U.S.$50 million senior loan, a U.S.$23.96 million subordinated loan and a U.S.$26.04 million convertible subordinated loan. The subordinated loan carries a "distressed conversion option" and the convertible subordinated loan may be converted into Shares and/or GDRs at the option of IFC or EBRD, as the case may be, as well as the Bank in certain circumstances. The conversion rights are subject to anti-dilution provisions that entitle each of IFC and EBRD to subscribe for up to 255,458 additional Shares at the market price per share at the time of conversion in the event that its shareholding on conversion would otherwise fall below 5% of Bank of Georgia's total issued share capital at the time of conversion. Bank of Georgia has agreed to maintain a sufficient number of authorised but unissued Shares to permit the conversion by IFC and EBRD of their respective convertible subordinated loans. The facility was disbursed in full as of 17 March 2009.

With the exception of the Semper Augustus and OPIC senior and subordinated facilities which carry interest at fixed rates from 5.75%and 11.65% respectively, all of the foregoing loans bear fixed or floating interest rates tied either to LIBOR or EURIBOR. Interest rates for the Bank's U.S. dollar borrowings ranged from 5.75% to LIBOR plus 9%, including subordinated facilities in 2008, and from 4% to LIBOR plus 8.65% in 2007 and 2006. In May 2009, the Bank signed an ISDA Master Agreement with the IFC. The ISDA Master Agreement enables the Bank to engage, for the first time, in interest rate swap transactions that allow it to hedge U.S dollar interest rate risk on its outstanding long-term borrowings. As a result, floating rates for the following facilities were swapped into fixed rates: Hillside Apex Fund 2005 subordinated loan in the amount of U.S.$5.0 million, FMO 2006 senior loan in the amount of U.S.$12.5 million, Merrill Lynch 2007 subordinated loan in the amount of U.S.$35.0 million, EBRD 2008 senior loan in the amount of U.S.$50.0 million, IFC 2008 senior loan in the amount of U.S.$50.0 million, EBRD 2008 subordinated loan in the amount of U.S.$24.0 million, and IFC 2008 subordinated loan in the amount of U.S.$24.0 million.

In August 2007, Bank of Georgia completed the placement of its debut U.S. $123.5 million syndicated loan facility with the assistance of Citibank and ADB. The facility has a 12-month, 18-month and three-year tranche. As of the date of this Prospectus, U.S.$98.5 million of the Facility has been repaid.

As of the date of this Prospectus, the Bank has trade finance lines from IFC (U.S.$20 million), EBRD (EUR 29 million), US Export-Import Bank (U.S.$20.0 million), AKA and Euler Hermes (EUR 5.0 million), Citibank N.A. (U.S.$10.0 million), Commerzbank (EUR 6.0 million), Sace and Unicredito Italiano S.p.A (EUR 3.5 million), Kazkommerzbank (U.S.$3.0 million), Standard Chartered Bank (U.S.$3.0 million), Česká Exportní Banka (U.S.$2.0 million), BNP Paribas (U.S.$6.0 million), Sumitomo Mitsuia Banking Corporation (U.S.$4.0 million), Fortis Bank (U.S.$3.0 million), the US Department of Agriculture (U.S.$25.0 million), Ziraat Bank (U.S.$3.0 million). The US Export-Import Bank, Citibank N.A., Sace and Unicredito Italiano S.p.A, Kazkommerzbank, Standard Chartered Bank, Česká Exportní Banka, Sumitomo Mitsui Banking Corporation, Fortis Bank, US Department of Agriculture, and UBS lines are temporarily suspended as of the date of the Prospectus.

In September 2008, Bank of Georgia became the first Georgian bank to join the IFC's Trade Finance Programme.

In July 2009, Bank of Georgia and EBRD signed an amended and restated participation agreement, pursuant to which EBRD has made available an additional U.S.$20 million co-financing for the Bank's corporate clients which may be used for term lending for a period of up to eight years as well as revolving credit lines for working capital needs. The original participation agreement was signed in June 2005 and provided financing in an aggregate amount of U.S.$5.0 million. The facility enables EBRD to co-finance the Bank's corporate clients together with the Bank, without recourse to the Bank, fully bearing the Georgian corporate risk.

Certain of the Bank's financing agreements with commercial banks and international financial institutions require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. From time to time, the Bank has breached certain of these covenants, in part due to its high rate of growth. The Bank has obtained waivers related to all such breaches. See "Risk Factors—Risks Relating to the Bank's Business—Restrictive Covenants".

Moreover, certain of the Bank's financing agreements with commercial banks and international financial institutions carry restrictions on mergers, corporate restructuring, disposal of assets, acquisitions, and liens on its assets.

In case of subordinated facilities, Bank of Georgia has an option in each case to prepay after the fifth anniversary of the disbursement date, with the consent of the FSA. The OPIC subordinated loan allows prepayment at any time, with the consent of the FSA. Unsubordinated facilities allow flexibility in terms of prepayment.

Debt Securities Issued

Since 1 January 2006, Bank of Georgia has completed several debt securities offerings and placements. The following are the most significant of these debt securities offerings and placements:

In February 2007, BG Finance B.V. issued U.S.$200 million, 9% loan participation notes due 2012 for the sole purpose of financing a loan to Bank of Georgia. The issuance of the loan participation notes was the debut Eurobond transaction in Georgia.

In April through September 2008, Bank of Georgia raised GEL 63.9 million through the issuance of local currency denominated promissory notes. The term of the notes ranged from 1 to 6 months. All promissory notes were repaid as of 31 December 2008.

In June and July 2008, Bank of Georgia completed a private placement of U.S.$140 million, two-year loan passthrough notes. The notes were issued by Rubrika Finance Company Netherlands B.V. The noteholders had a right to exercise a put option on the notes at any time one year from the date of issuance. J.P.Morgan Securities Limited acted as the sole arranger of the transaction. Bank of Georgia repurchased loan passthrough notes with a face value of U.S.$91 million in the first half of 2009 and noteholders have exercised their put option on the remaining U.S.$49 million, which Bank of Georgia repaid in full in June 2009.

Equity Funding

While customer accounts and loans are the Bank's principal sources of funding, the Bank has raised capital through the issuance of new Shares since 1 January 2006.

From 1 January 2006 to 31 October 2006, Bank of Georgia raised an aggregate of GEL 30.8 million from the issue of 2,147,820 new Shares including 609,000 Shares bought by Bank Austria Creditanstalt and issued to institutional investors in the form of call warrants. The call warrants were first traded on the Vienna Stock Exchange in September 2005. In June 2007, Bank Austria Creditanstalt converted 3,356,242 Shares into GDRs, comprised of the Shares purchased above as well as other Shares held.

In November 2006, Bank of Georgia raised net proceeds of U.S.$128.1 million on the LSE through the issuance of over 7.4 million new Shares in the form of GDRs pursuant to the IPO. The GDRs, are listed on the Official List and are admitted to trading on the London Stock Exchange. Bank of Georgia was the first Georgian company to raise new equity capital on the LSE.

In June 2007, the Bank increased its authorised share capital by 7,500,000 Shares and pre-emptive rights were cancelled.

In February 2008, Bank of Georgia raised net proceeds of U.S.$100.0 million on the LSE through the offering and issuance of 4.0 million Shares in the form of GDRs.

In June 2008, Bank of Georgia increased its authorised share capital by 7,000,000 Shares and pre-emptive rights were cancelled.

In June 2009, Bank of Georgia increased its authorised share capital by 3,472,506 Shares and pre-emptive rights were cancelled.

LENDING POLICIES AND PROCEDURES

Bank of Georgia lends to corporate and retail clients. Loans advanced are typically short, medium and long-term and secured by collateral. Bank of Georgia has established procedures for approving loans, monitoring loan quality and for extending and refinancing existing loans. These procedures are set out in Bank of Georgia's credit policy (the "**Credit Policy**"), which is approved by Bank of Georgia's Supervisory Board and Management Board, and applies to all loans, including those to related parties. The performance of outstanding loans is subject to monitoring by Bank of Georgia's Credit Risk Management departments.

At the centre of Bank of Georgia's lending and approval process is its Credit Committee. The Credit Committee supervises and manages Bank of Georgia's credit risks. In particular, the Credit Committee approves individual transactions, establishes credit risk categories and provisioning rates. The Deputy Chief Executive Officer ("**Deputy CEO**") Chief Risk Officer, who is responsible for credit risk and asset recovery, adopts, in consultation with Bank of Georgia's Chief Executive Officer ("**CEO**") and Deputy CEO, Finance, decisions on the acceleration and write-offs of NPLs. The Credit Committee is comprised of four tiers of subcommittees. The first tier subcommittee for corporate loans is chaired by the Risk Manager of the relevant Credit Risk Management department and approves loans resulting in Bank of Georgia's overall exposure to the relevant borrower of up to U.S.$500,000. The first tier subcommittee for retail loans is chaired by the Risk Manager of the Retail Banking Credit Risk Management department and approves loans of up to U.S.$150,000. The second tier subcommittee is chaired by the Deputy Director of the Credit Risk Management department and approves loans resulting in Bank of Georgia's overall exposure to the relevant borrower in the range of U.S.$500,000-U.S.$1,000,000 for corporate banking loans and U.S.$150,000-U.S.$300,000 for retail banking loans. The third tier subcommittee for corporate loans is chaired by the Deputy CEO, Chief Risk Officer and approves loans resulting in Bank of Georgia's overall exposure to the relevant borrower of up to U.S.$3,000,000 for corporate banking loans. The third tier subcommittee for retail loans is co-chaired by the Director of the Credit Risk Management department and Deputy CEO, Retail Banking and approves loans of up to U.S.$2,000,000. The fourth tier subcommittee is chaired by the CEO and approves loans resulting in Bank of Georgia's single borrower lending exposure exceeding U.S.$3,000,000 for corporate and U.S.$2,000,000 for retail loans. All exposures to single borrowers over U.S.$4.0 million require approval by Bank of Georgia's Supervisory Board. The third and fourth tier subcommittees of the Credit Committee meet three times a week and the first and second tier subcommittees meet on an as-needed basis, typically two or three times per week. All subcommittees makes their decisions by a majority vote of all their respective members. Since September 2008, as a temporary measure, loan applications of borrowers, whose business activities fall within the following sectors: construction, construction materials, real estate management, auto dealing, electrical products and tourism are submitted for approval to the third and fourth tier subcommittees irrespective of the relevant borrower's total exposure. Decisions on micro loans under U.S.$50,000 are made at the branch level pursuant to joint approval by the Director of Micro Lending department or group leader. The originator of the loan, however, does not participate in the approval of the loan.

Loan Approval Procedures

Bank of Georgia evaluates corporate clients on the basis of their credit history, business operations, financial condition, proposed business and financing plan and on the quality of the collateral offered.

Applications for loans by corporate clients are initially submitted to the account manager responsible for the particular customer. The account manager obtains from the applicant the documents necessary to review the loan application, including confirmation of the applicant's legal status, its financial reports, evidence of its management's authority, a description of the proposed collateral, which is valued by the Bank's valuer, and supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history. The account manager then performs an on-site assessment of the customer's business operations.

The loan application, together with the supporting documentation and collateral evaluation report, are then submitted by the account manager to the Credit Risk Management department for independent appraisal. The Credit Risk Manager carries out an overall appraisal of the applicant's business, assesses its suitability as a customer of Bank of Georgia and appraises its business operations or the project to be funded as well as the applicant's creditworthiness. The credit risk manager independently carries out a detailed analysis of the loan application, including, in particular, an evaluation of the applicant's financial condition, its business operations or the project to be funded, the sufficiency of the proposed collateral, the applicant's sources of repaying or refinancing the loan and the risk of default. The credit risk manager conducts a detailed review focussing in particular on the possible non-legal risks. Once the credit risk manager's review is complete, the loan application and credit risk manager's report are submitted to the appropriate level of the Credit Committee, depending on the overall exposure. The Credit Committee then makes the final decision, which is signed by all members of the Credit Committee in attendance at the relevant meeting.

The loan approval procedures for retail banking loans depend on the type of retail lending product. Applications for consumer, including credit cards, and auto loans are treated under the "scoring" approval procedure. A loan officer conducts an interview with the applicant, completes an application, collects all relevant documentation and submits it to the Retail Banking Credit Risk Management department, where the application is subject to a scoring system (which includes an assessment of the applicant's credit history, financial position and ability to service the loan). While certain loans are approved automatically, the appropriate credit committee will determine the maximum amount of other loans. Applications for mortgage loans by retail banking clients are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the maximum amount of the loan, which must be approved at the appropriate credit committee level. In case of micro-financing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate credit committee which makes the final decision. Credit committee members have equal voting authority and decisions are approved by a simple majority of votes.

In 2004, Bank of Georgia, jointly with certain other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established JSC Credit Information Georgia ("**CIG**") to serve as a centralised credit bureau in Georgia. While most Georgian banks have shared negative customer credit information since July 2006 and have recently begun to share and contribute positive customer credit information to CIG, CIG is not yet fully developed. There is currently no law on credit reporting in Georgia.

Monitoring

Bank of Georgia has procedures requiring regular monitoring of its loans and its loan portfolio pursuant to defined procedures. As well as monitoring the borrower's compliance with its obligations under the relevant loan, Bank of Georgia reviews all available information on the borrower's activities, including financial reports. In relation to its loan portfolio, Bank of Georgia also monitors the level of non-performing loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

In the event that a payment is not made when due, the borrower is contacted by one of Bank of Georgia's officers and employees to ascertain the reason for non-payment. Bank of Georgia revises its rating of the borrower and adjusts its provisioning accordingly. Default interest accrues until payment is made. If payment is not made within a prescribed period, Bank of Georgia transfers the loan to the Asset Recovery department and/or commences legal proceedings for the recovery of the debt.

Collateral

Bank of Georgia typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support and collateral are real estate, fixed assets and equipment, guarantees and rights to claim amounts on the borrower's current account with Bank of Georgia or other assets. Under Bank of Georgia's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 December 2008, 87.3% of Bank of Georgia's loans to clients were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Valuation & Liquidation department and submitted to the Credit Committee, together with the loan application and credit risk manager's report. When evaluating collateral, Bank of Georgia discounts the market value of the assets to reflect the liquidation value of the collateral. The Legal department is responsible for registering the collateral taken.

Bank of Georgia's requirements with regard to liquidity and price volatility of collateral depend on its evaluation of the borrower and the loan transaction. The frequency of a collateral review depends on the type of collateral taken. In normal circumstances, collateral is generally expected to be realised within a maximum period of six months after a court decision. However, the enforcement of a court decision on certain types of collateral, such as real property and industrial equipment, may take longer due to lengthy legal procedures and other factors. See "Risk Factors—Risks Relating to the Bank's Business—Enforcement of Security".

Assessments of Provisions for Loan Impairment

Pursuant to FSA regulations, Bank of Georgia has provisions for impairment losses of financial assets when there is evidence that a financial asset or group of financial assets is impaired. Bank of Georgia creates provisions by reference to the particular borrower's financial condition, the assets at risk, the amount which is adequate to provide for losses incurred and the number of days the relevant loan is overdue. If in a subsequent period an event occurs which causes the impairment loss to decrease, an adjustment is made to reflect that change.

The change in impairment of interest earning assets is reflected in the profit and loss account and the total impairment of interest earning assets is recognised through the use of an allowance account which is deducted in arriving at net balances as shown in the balance sheet. Factors that Bank of Georgia considers in determining whether it has objective evidence that an impairment loss has been incurred include FSA regulations, information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in impairment for similar financial assets, national economic trends and conditions and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Estimates of losses involve an exercise of judgement. While it is possible that in particular periods Bank of Georgia may sustain impairment losses that are substantial relative to the allowances, it is the judgement of Management that the allowance account for interest earning assets is adequate to absorb losses incurred on the assets at risk. Bank of Georgia monitors its loan portfolio on a monthly basis to determine whether estimates of losses should be increased or decreased.

In October 2006, Bank of Georgia introduced an internal loan loss allowance methodology, which is based upon IFRS requirements. Under this policy, Bank of Georgia categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans of GEL 600,000 or more and non-significant loans are defined as loans of less than GEL 600,000. All significant loans are classified according to individual credit and provisioning ratings. Non-significant loans that are overdue by more than 30 days are provisioned individually according to the overdue days. All non-impaired, non-significant loans as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates.

In December 2008 and June 2009, Bank of Georgia made changes to the internal loan loss allowance methodology in order to comply with IFRS requirements. Bank of Georgia has started to use a new factor calculation for loss-possible reserves, utilising the discounted value of collateral. Since December 2008, this factor applies only to the significant corporate and SME loans with provision rates of 30% and more and since June 2009, it also applies to mortgage loans in an amount of GEL 50,000 or more. Bank of Georgia calculates the discounted value of particular collateral and subtracts it from the provision amount of the loan.

In response to the changed credit risk environment, a corporate recovery unit and retail loan restructuring group were established. In addition, procedures for loan restructuring were developed and implemented for both corporate and retail banking and are an important tool for enhanced credit portfolio management.

As of 31 December 2008, the Bank's allowance for loan impairment under IFRS was 5.0% of its loan portfolio compared to 1.7% and 3.1% as of 31 December 2007 and 2006, respectively.

RISK MANAGEMENT

Overview

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are liquidity risk, market risk (including currency exchange rate risk and interest rate risk), credit risk, operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks. The main tools of risk management of the Bank are the establishment of specific procedures with respect to operations involving certain types of risks as well as the placement of various authority limits on certain operations. The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank's risk management procedures are designed to identify and analyse relevant risks to its business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in light of the development and growth of its business and the varying nature of the risks which the Bank faces in its day-to-day business.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Risk Management Structure

The Bank conducts its risk management activities within the framework of its unified risk management system.

Risk Management Bodies

Responsibility for the conduct of the Bank's risk management activities is divided among the Bank's principal risk management bodies, which are Bank of Georgia's Management Board, Supervisory Board, Credit Committee and ALCO.

Management Board. The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Supervisory Board. The Supervisory Board approves the Bank's Credit Policy, which outlines credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the Credit Committee's authority (including approvals of single borrower lending exposure exceeding U.S.$4.0 million).

Credit Committee. The Credit Committee supervises and manages the Bank's credit risks. Specifically, the Credit Committee approves individual transactions, establishes credit risk categories and provisioning rates on such transactions. The Deputy CEO, Chief Risk Officer and the Credit Risk Management department adopts, in consultation with Bank of Georgia's CEO and Deputy CEO, Finance, decisions on the acceleration and write-off of non-performing loans. The Credit Committee is comprised of four tiers of subcommittees. The first tier subcommittee is chaired by the Risk Manager of the relevant Credit Risk Management department and approves loans resulting in Bank of Georgia's overall exposure to the relevant borrower of up to U.S.$500,000 for corporate loans and up to U.S.$150,000 for retail loans. The second tier subcommittee is chaired by the Deputy Director of the Credit Risk Management department and approves loans resulting in the Bank's overall exposure to the relevant borrower in the range of U.S.$500,000-U.S.$1,000,000 for corporate banking loans and U.S.$150,000-U.S.$300,000 for retail banking loans. The third tier subcommittee is chaired by the Deputy CEO, Chief Risk Officer and approves loans resulting in the Bank's overall exposure to the relevant borrower of up to U.S.$3,000,000 for corporate banking loans. The third tier subcommittee for retail loans is co-chaired by Director of Credit Risk Management department and Deputy CEO, Retail Banking, and approves loans of up to U.S.$2,000,000. The fourth tier subcommittee is chaired by the CEO and approves loans resulting in the Bank's single borrower lending exposure exceeding U.S.$3,000,000 for corporate and U.S.$2,000,000 for retail loans. All exposures to single borrowers over U.S.$4,000,000 require approval by Bank of Georgia's Supervisory Board. The third and fourth tier subcommittees of the Credit Committee meet three times per week and the first and second tier subcommittees meet on an as-needed basis, typically two to three times per week. All subcommittees of the Credit Committee make their decisions by a majority vote of their respective members. Since September 2008, as a temporary measure, loan applications of borrowers, whose business activities fall within the following sectors: construction, construction materials, real estate management, auto dealing, electrical products and tourism are submitted for approval to the third and fourth tier subcommittees irrespective of the relevant borrower's total exposure. Decisions on micro loans under U.S.$50,000 are made at the branch level pursuant to joint approval by the Director of the Micro Lending department or group leader. The originator of the loan, however, does not participate in the approval of the loan.

ALCO. The ALCO establishes the Bank's policy with respect to capital adequacy, market limits, medium and long-term liquidity risk and interest rates. Specifically, the ALCO sets interbank lending limits as well as open currency position limits with respect to both overnight and intra-day positions and stop loss limits. It also monitors compliance with established value at risk ("**VAR**") limits on possible losses as a secondary measure. The ALCO sets ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities with and without approval. Compliance with the interest rate policy is monitored by the head of Financial Risk Management and Treasury. The ALCO is chaired by the CEO and meets on a monthly basis as well as any other time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO, Finance, Deputy CEO/Chief Risk Officer, Chief Operating Officer; Head of Financial Risk Management, Head of the Treasury, Head of Trade Finance and Head of Funding. At its monthly meetings, the ALCO reviews financial reports and indices including the Bank's ALM limits/ratios, balance sheet, statement of operations, liquidity gap, interest rate gap, cash flow analyses for the past three months and future projections, deposit concentration and other financial and growth projections.

Implementation

The Bank's risk management system is implemented by the following departments: Financial Risk Management, Treasury, Credit Risk Management, Operational Risk Management, Legal and Compliance, Reporting and Analysis. The Compliance department reports to the Management Board while the Reporting and Analysis department reports to the Deputy CEO, Finance. The Treasury department reports to the CFO. The Financial Risk Management, Credit Risk Management (CB Portfolio Analysis) and Operational Risk Management departments report to the Deputy CEO in charge of Retail Banking. The Legal department reports to the Deputy CEO in charge of Legal.

The Financial Risk Management department, in coordination with the Treasury department, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury department manages foreign currency exchange, money market, treasury bill and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policy, management of the quality of the Bank's loan portfolio quality and filing and loan administration.

The Operational Risk Management department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal department's principal purposes are to ensure the Bank's activities conform with applicable legislation and to minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, investigation of the Bank's activities in order to identify any legal risks, planning and implementation of all necessary actions for elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and investigating possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank.

The Legal department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal department also participates in drafting laws and regulatory documents upon request of legislators and regulators, interbank associations and other professional bodies.

The Tax Compliance department focuses on the Bank's relationship with the tax authorities and provides practical advice and tax optimisation structures for the Bank.

Each of the foregoing departments is provided with a policy manual that has been approved by the Management Board. The Manuals include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policy, foreign exchange operations procedures, fixed income investment guidelines, retail banking operations procedures, the deposit policy and the credit policy.

Reporting

The Bank maintains a management reporting system which requires the Credit Risk Management, Financial Management and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and Treasury Report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Supervisory Board report containing analysis of the Bank's performance against its budget are provided.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments as they fall due. Liquidity risk is managed through the ALCO approved liquidity framework. The Treasury department manages liquidity on a daily basis and submits monthly reports to the ALCO. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The ALCO sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to fund under both normal conditions and during a crisis situation. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed annually to ensure it is appropriate to the Bank's current and planned activities. The annual review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Management Board.

The Treasury department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the ALCO prior to approval by the Management Board.

The Bank's capability to discharge its liabilities is dependent on ability to realise an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

- deposits;
- borrowings;
- debt issues;
- principal repayments on loans;
- interbank deposits;
- interest income; and
- fees and commissions income.

As of 31 December 2008, total amounts owed to clients were GEL 1,193.1 million (U.S.$715.7 million) (as compared to GEL 1,355.5 million and GEL 559.6 million as of 31 December 2007 and 2006, respectively) and represented 47.0% (as compared to 56.6% and 66.7% as of 31 December 2007 and 2006, respectively) of the Bank's total liabilities. As of 31 December 2008, amounts owed to credit institutions accounted for GEL 1,216.7 million (U.S.$729.9 million) (as compared to GEL 901.8 million and GEL 224.4 million as of 31 December 2007 and 2006, respectively) and represented 47.9% (as compared to 37.6% and 26.8% as of 31 December 2007 and 2006, respectively) of total liabilities. Amounts owed to credit institutions are taken from a wide range of counterparties.

Management believes that the Bank's liquidity is sufficient to meet its present requirements.

Market Risk

The Bank is exposed to market risks (including currency exchange rate risk and interest rate risk) which arise from open positions in fixed income and equity securities and currencies, all of which are exposed to market fluctuations. The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Financial Risk Management and Treasury departments monitor compliance with such limits.

Currency Exchange Rate Risk. Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on one-year statistical data. Its open currency positions are managed by the Treasury department on a day-to-day basis and are monitored by the Head of Treasury on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intraday positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a VAR of U.S.$30,000 for a one-day trading period with a 95.0% "tolerance threshold", but the open position is limited to a maximum of 10.0% of its regulatory capital. The ALCO limit of 10.0% is more conservative than NBG and Basel Standards, which allows banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than U.S. dollars and Lari to GEL 500,000.

Interest Rate Risk. The Bank has exposure to interest rate risk as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its duration gap and maintains an interest rate margin (net interest income before impairment of interest earning assets divided by average interest earning assets) sufficient to cover operational expenses and risk premium. The ALCO proposes and the Management Board approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities with and without approvals. Compliance with the Bank's interest rate policy is monitored by the Head of the Financial Risk Management department and the Head of the Treasury department.

As of 31 December 2008, the Bank's floating rate borrowings accounted for approximately 25% of the Bank's total liabilities. In June 2009, Bank of Georgia completed U.S. dollar interest rate swap transactions in an aggregate amount of U.S. $197.0 million with IFC, hedging its exposure to U.S. dollar floating interest rates for approximately 80% of its long-term floating rate liabilities.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit policy are outlined in the Credit Policy. The Credit Policy also outlines credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policy is reviewed annually or more frequently if necessary and was last revised in June 2009. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. However, the Bank continues to use the FSA's provisioning methodology in order to comply with FSA requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, industry sectors and standard products, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the FSA. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

The Credit Committee approves individual transactions, establishes credit risk categories and establishes credit risk categories and provisioning rates in respect of such transactions. The Deputy CEO in charge of the Risk Management and Credit Risk Management departments adopt, in consultation with Bank of Georgia's CEO and Deputy CEO, Finance, decisions on the acceleration and write-off of non-performing loans. See "—Risk Management Structure—Risk Management Bodies—Credit Committee".

The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management department on a continuous basis. Exposure and limits are subject to annual or more frequent review. Under FSA regulations, provisions for loan impairment are established following the default by a borrower under a loan or where there is objective evidence of the potential inability of the borrower to repay the loan. The Bank creates provisions by reference to individual credit products, calculated based on the relevant borrower's financial condition. Provisions are made against gross loan amounts.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of GEL 600,000 or more and non-significant loans are defined as loans less than GEL 600,000. The Credit Risk Management department makes an individual assessment of significant loans and loans with category A rating are given a collective provision rate. All significant loans other than category A are provisioned individually depending on the category they fall in. Significant loans in category E are written off. Categories are determined according to borrower's financial performance, business performance, leverage, credit history, quality of management and shareholders' support. In addition, the loan to collateral ratio and quality of collateral may affect provisioning rate of individually assessed loans. All non-significant loans are divided into different groups (for example mortgage, auto, consumer, micro-loans). All non-significant loans that are overdue more than 30 days are provisioned individually mainly based on the overdue days. All non-impaired non-significant loans, as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates. Non-significant loans which are overdue for more then 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 360 days. The following table sets out the Bank's provisioning methodology for significant loans, which is in line with IFRS requirements.

Loan Category	Internal Provisioning Range (Percentage)
A	0.0
BA	5.0
BB	10.0
CA	20.0
CB	30.0
DA	50.0
DB	75.0
E	100.0

Management believes Bank of Georgia is currently one of the most conservatively provisioned banks in Georgia. In 2008, the Bank's loan portfolio quality deteriorated as the gross outstanding amortised cost of the Bank's past-due or individually impaired loans in the portfolio, before deduction of any allowance for impairment, increased from GEL 80.2 million (U.S.$50.4 million) (5% of the Bank's gross loan portfolio) as of 31 December 2007 to GEL 383.1 million (U.S.$229.8 million) (18% of the Bank's gross loan portfolio) as of 31 December 2008, mainly as a result of extraordinary loan impairment charges on the loan book in Georgia, largely due to the Conflict and loan impairment charges in Ukraine due to deteriorating market conditions in Ukraine in the second half of 2008. In 2007, the Bank's loan portfolio quality improved as the gross outstanding amortised cost of the Bank's past-due or individually impaired loans in the portfolio, before deduction of any allowance or impairment, decreased from GEL 72.4 million (U.S. $42.3 million) (10% of the Bank's gross loan portfolio) as of 31 December 2006. See "Selected Statistical and Other Information—Loan Portfolio—Loans and Amounts and Number of Borrowers" for a list of the Bank's ten largest borrowers by industry as of 31 December 2008.

The Bank has an Asset Recovery department, which reports to the Deputy CEO/Chief Risk Officer. As of 31 December 2008, the gross outstanding amortised cost of the Bank's past-due or individually impaired loans in the portfolio, before deduction of any allowance for impairment, was approximately GEL 383.1 million (U.S.$229.8 million). For the year ended 31 December 2008, the Bank wrote-off GEL 45.7 million (U.S.$27.4 million) and recovered GEL 11.2 million (U.S.$6.7 million) from the previously written-off loans.

For a detailed description of the Bank's lending policies and procedures, see "Lending Policies and Procedures".

Operational and Legal Risks

The Bank is exposed to operational risks, arising out of the various operational activities in which it is engaged. The Bank manages its operational risks by establishing, monitoring and continuously improving its policies relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data backup and disaster recovery arrangements.

The Operational Risk Management department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to neutralise identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility. An operational risk manager, who reports to the Deputy CEO, Chief Risk Officer is responsible for the oversight of the Bank's operational risks.

The Legal department's principal purposes are to ensure the Bank's activities conform with applicable legislation and to minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, investigation of the Bank's activities in order to identify any legal risks, planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and investigating possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal department is also responsible for providing legal support to structural units of the Bank.

The Internal Audit department ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The Internal Audit department is responsible for monitoring and assessing the adequacy of compliance with internal procedures at all levels of the Bank's management. This department regularly inspects the integrity, reliability and legality of the operations conducted by the Bank's risk management departments, analyses and reports on risks connected with the introduction of new services or products and reviews the reliability of the Bank's information technology systems at least once per year. It also assesses the reliability and security of financial information and monitors the Bank's internal controls and reporting procedures.

The head of the Internal Audit department reports directly to the Supervisory Board and has a staff of 10 employees.

The principal function of the Internal Audit department is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions.

As part of its auditing procedures, the Internal Audit department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBG;
- making recommendations to management on the basis of external and internal audits to improve internal controls; and
- monitoring the implementation of auditors' recommendations.

Anti-Money Laundering Procedures

Bank of Georgia has procedures and operative documents aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and internal control procedures and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FMS. The FMS was established in 2003 and serves as Georgia's financial intelligence unit. These procedures aim to, among other things, minimise the risk to Bank of Georgia of being used as a vehicle for money laundering or terrorist financing, protect Bank of Georgia from financing and reputation risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to bona fide clients.

Anti-money laundering procedures include (i) KYC procedures that require clear identification of clients, verification of their identity and appraisal of risk of their engaging in money laundering and/or terrorist financing, (ii) "know your correspondent bank" procedures that carefully screen the Bank's potential partners with regard to their anti-money laundering policies, and (iii) "know your employee" procedures that ensure prevention of a Bank employee's possible involvement in money laundering and terrorism financing. KYC procedures require clear identification of the beneficial ownership of a transaction. The Bank practices a risk-based approach and therefore enhanced due diligence procedures are implemented if the risk of particular clients engaging in money laundering and/or terrorist financing is determined to be significant.

Bank of Georgia identifies transactions that must be monitored and reported pursuant to Georgian anti-money laundering legislation. Such legislation requires Bank of Georgia to monitor and report suspicious transactions and activity over a certain threshold amount (currently GEL 30,000 or foreign currency equivalent). Bank of Georgia maintains a database containing information on all clients and transactions in which they engage, which facilitates identification of unusual transactions. In addition, Bank of Georgia verifies each client's identity, legal status and authority to engage in particular transactions. Bank of Georgia does not enter into business relationships with clients that refuse to provide sufficient identity and authority information.

The AML Unit is a special designated unit for AML/CFT compliance, chief of unit serving as a Chief AML Officer. The AML Unit is fully independent of all other business functions. Its primary goal is development, periodic review and update of AML policies and procedures and KYC policies and procedures, as well as ensuring strict adherence to all business processes in the Bank to the adopted AML measures. The AML Unit is also responsible for the daily reporting to the FMS in accordance with current legislation, and training of the employees in AML/KYC policies and procedures. Within the scope of the Bank's KYC policies and procedures, the AML Unit conducts due diligence on potential business partners, carefully screens counterparties and the adequacy of their AML capabilities and compliance with FATF/GAFI Recommendations. The AML Unit also monitors client transactions and the activities of all of Bank of Georgia's departments for compliance with applicable Georgian anti-money laundering legislation. Bank of Georgia's other departments notify this department of suspicious transactions, using the criteria set out in the Bank of Georgia's internal anti-money laundering regulations. The AML Unit pays particular attention to transactions involving large sums of money or significant amounts of cash. If monitoring indicates that a client may be engaged in money-laundering or terrorist financing, the level of monitoring of such client is increased. Activities are analysed on an ongoing basis, which allows detection of money-laundering schemes. If necessary, the AML Unit obtains additional information about a particular transaction's purpose and/or suspends suspicious transactions.

The AML Unit also provides education and training of personnel regarding Bank of Georgia's anti-money laundering procedures.

In March 2006, Bank of Georgia was fined GEL 0.7 million by the NBG for violating certain provisions of the Georgian Law on Money Laundering relating to the timely reporting of transactions in excess of GEL 30,000 (or foreign currency equivalent) and reporting obligations triggered by requests for information from the authorities. The NBG also made certain recommendations for improvement of the Bank of Georgia's AML capability. Bank of Georgia has implemented all of the NBG's recommendations and paid the fine in March 2006. In response to such fine, Bank of Georgia has additionally formed a separate AML Compliance Unit. In February and December 2008, Bank of Georgia was fined GEL 0.4 million and GEL 0.2 million, respectively, by the regulator for violating certain provisions of the Georgian Law on Money Laundering relating to the timely reporting of transactions. Bank of Georgia continues to enhance its AML compliance and is in the process of implementing AML Filtering/List Checking (developed by SIDE International) and Profiling (developed by Tonbeller) software solutions in order to remedy the delays associated with the current paper-based reporting.

See "Risk Factors—Risks Relating to Georgia and Other Principal Markets—Risks Related to Money Laundering and/or Terrorist Financing".

PRINCIPAL SUBSIDIARIES

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Consolidated Subsidiaries – Georgia				
JSC Galt and Taggart Securities	Tbilisi, Georgia	Brokerage and asset management	100.0% - Bank of Georgia	GEL 5,148,275
Galt & Taggart Tax Advisory, LLC	Tbilisi, Georgia	Tax consulting	100.0% - Galt and Taggart Securities	GEL 5,000
Galt and Taggart Asset Management, LLC	Tbilisi, Georgia	Asset management	100.0% - GTAM Limited	GEL 200,000
JSC Belorussian Investments	Tbilisi, Georgia	Consumer goods production and distribution	100.0% - Galt and Taggart Asset Management	GEL 1,000
JSC Liberty Financial Opportunities	Tbilisi, Georgia	Investment	100.0% - Galt and Taggart Asset Management	GEL 565,164
JSC Galt and Taggart Holdings	Tbilisi, Georgia	Investment	100.0% - Bank of Georgia	GEL 9,735,961
JSC Liberty Consumer (formerly JSC Galt and Taggart Capital)	Tbilisi, Georgia	Investment	51.64% - Galt and Taggart Holdings 13.6% - Bank of Georgia 0.19% - Galt and Taggart Asset Management 0.01% - Galt and Taggart Securities	GEL 603,058
JSC SB Real Estate	Tbilisi, Georgia	Real estate	52.1% - Liberty Consumer	GEL 831,117
JSC SB Outdoor & Indoor	Tbilisi, Georgia	Advertising	100.0% - Liberty Consumer	GEL 15,000
JSC Intertour	Tbilisi, Georgia	Travel agency	83.6% - Liberty Consumer	GEL 2,200
Holiday Travel, LLC	Tbilisi, Georgia	Travel agency	100.0% - Intertour	GEL 2,000
JSC Prime Fitness	Tbilisi, Georgia	Fitness centre	100.0% - Liberty Consumer	GEL 100,000
MetroNet, LLC	Tbilisi, Georgia	Communication services	100.0% - Liberty Consumer	GEL 500,200
Real Estate Brokerage-Presto, LLC	Tbilisi, Georgia	Real estate brokerage	100.0% - Galt and Taggart Holdings	GEL 581,200
JSC SB Immobiliare	Tbilisi, Georgia	Real estate and construction	100.0% - Galt and Taggart Holdings	GEL 30,125
JSC Insurance Company Aldagi BCI	Tbilisi, Georgia	Insurance	51.0% - Galt and Taggart Holdings 49.0% - Bank of Georgia	GEL 7,242,802
JSC My Family Clinic	Tbilisi, Georgia	Healthcare	100.0% - Insurance Company Aldagi BCI	GEL 1,131,680
JSC Kutaisi St. Nicholas Surgery Hospital	Kutaisi, Georgia	Medical	55.0% - Insurance Company Aldagi BCI	GEL 50,000
Georgian Leasing Company, LLC	Tbilisi, Georgia	Leasing	100.0% - Bank of Georgia	GEL 3,180,000
JSC DBL.ge	Tbilisi, Georgia	Investment	100.0% - Georgian Leasing Company	GEL 152,000
JSC DBL Capital	Tbilisi, Georgia	Brokerage	100.0% - DBL.ge	GEL 150,000
GC Holdings, LLC	Tbilisi, Georgia	Investment	92.0% - Galt and Taggart Holdings 8.0% - Liberty Consumer	GEL 8,043,478
JSC Georgian Card	Tbilisi, Georgia	Card processing	55.7% - GC Holdings	GEL 3,500,000
JSC Nova Technology	Tbilisi, Georgia	Electronic payment services	51.0% - GC Holdings	GEL 3,615,945
Direct Debit Georgia, LLC	Tbilisi, Georgia	Electronic payment services	100.0% - GC Holdings	GEL 200
JSC United Securities Registrar of Georgia	Tbilisi, Georgia	Registrar	100.0% - Bank of Georgia	GEL 630,000
JSC Club 24	Tbilisi, Georgia	Entertainment	100.0% - Galt and Taggart Holdings	GEL 2,005,200
Metro Service +, LLC	Tbilisi, Georgia	Business servicing	80.0% - Galt and Taggart Holdings 20.0% - Bank of Georgia	GEL 2,850,200
Galt & Taggart Commodities, LLC	Tbilisi, Georgia	Commodity trading	100.0% - Galt and Taggart Securities	GEL 10,000 (authorised but not fully paid)
Planeta Forte, LLC	Tbilisi, Georgia	Newspaper retail	51.0% - Liberty Consumer	GEL 1,270
Consolidated Subsidiaries – International				
JSC BG Bank (formerly known as Universal Bank of Development and Partnership)	Kyiv, Ukraine	Banking	99.4% - Bank of Georgia	UAH 265,000,000
Valimed, LLC	Minsk, Belarus	Investment	99.9% - Bank of Georgia 0.1% - Georgian Leasing Company	USD 3,573,574
JSC Belaruskiy Narodniy Bank	Minsk, Belarus	Banking	70.0% - Valimed	BYR 25,294,734,900
BNB Leasing, LLC	Minsk, Belarus	Leasing	76.0% - Belaruskiy Narodniy Bank	BYR 5,000,000

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Galt and Taggart Holdings Limited.........	Nicosia, Cyprus	Investment	94.34% - Galt and Taggart Securities 5.66% - Bank of Georgia	EUR 608,182
Galt & Taggart Trading Limited	Nicosia, Cyprus	Investment	100.0% - Galt and Taggart Holdings Limited	EUR 564,300
JSC Galt and Taggart Securities, SA (Moldova)	Chisinau, Moldova	Investment	95.1% - Galt and Taggart Holdings Limited	MDL 500,000
Galt and Taggart Securities (Ukraine), LLC...	Kyiv, Ukraine	Brokerage	100.0% - Galt and Taggart Holdings Limited	UAH 3,000,000
Galt and Taggart Securities (Belarus), LLC...	Minsk, Belarus	Brokerage	99.9% - Galt and Taggart Holdings Limited 0.1% - Galt and Taggart Trading Limited	USD 70,000
Brooksby Investments Limited	Nicosia, Cyprus	Investments	100.0% - Galt and Taggart Holdings Limited	EUR 2,000
Galt and Taggart Securities MMC, LLC...	Baku, Azerbaijan	Investment banking and brokerage services	75.0% - Galt and Taggart Holdings Limited	AZN 1,000
GTAM Limited	Nicosia, Cyprus	Investment activity	80.0% - Galt and Taggart Holdings Limited	EUR 202,000
GC Ukraine, LLC....................................	Kyiv, Ukraine	Card processing	100.0% - GC Holdings	USD 10,826
Georgia Financial Investments, LLC	Ramat Gan, Israel	Marketing	100.0% - Galt and Taggart Holdings	ILS 1,000,000 (authorised but not fully paid)
Minority Shareholding Interests – Georgia				
JSC SB Iberia..	Tbilisi, Georgia	Construction	49.0% - SB Immobiliare	GEL 15,000
JSC SB Iberia 2.......................................	Tbilisi, Georgia	Construction	49.0% - SB Immobiliare	GEL 100,000
JSC Teliani Valley	Tbilisi, Georgia	Wine production	27.19% - Liberty Consumer 0.03% - Galt and Taggart Securities	GEL 579,501
JSC One team..	Tbilisi, Georgia	Entertainment	25.0% - Liberty Consumer	GEL 15,000
JSC iCall	Tbilisi, Georgia	Call centre	27.0% - Liberty Consumer	GEL 20,000
JSC N Tour	Tbilisi, Georgia	Travel Services	30.0% - Liberty Consumer	GEL 285,714
JSC Hotels and Restaurants Management Group – m/Group	Tbilisi, Georgia	Food retail	50.0% - Liberty Consumer	GEL 30,000
JSC Info Georgia XXI	Tbilisi, Georgia	Business service	50.0% - Liberty Consumer	GEL 372,200
JSC Caucasus Automotive Retail............	Tbilisi, Georgia	Car retail	30.0% - Liberty Consumer	GEL 1,429
Ad Style , LLC..	Tbilisi, Georgia	Advertising	32.5% - SB Outdoor and Indoor	GEL 2,000
JSC Georgian Stock Exchange................	Tbilisi, Georgia	Stock Exchange	32.0% - Galt and Taggart Securities 2.0% - Galt and Taggart Asset Management	GEL 30,000
JSC Binatmshenebeli	Tbilisi, Georgia	Real Estate	19.99% - Bank of Georgia 2.79% - Galt and Taggart Holdings	USD 464,123
JSC Tbilisi Interbank Currency Exchange...	Tbilisi, Georgia	Currency exchange	27.3% - Bank of Georgia	GEL 440,000

MANAGEMENT AND EMPLOYEES

Overview

Bank of Georgia's corporate bodies are the GMS, the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and Bank of Georgia's Charter. The GMS elects the members of the Supervisory Board, which is responsible for supervising the Management Board. The Supervisory Board appoints the members of the Management Board, which is the executive body of Bank of Georgia directly responsible for day-to-day operations. According to the Banking Law, each bank in Georgia is required to have an Audit Committee, elected by the supervisory board, which mainly facilitates the activities of the internal audit and external auditors of a bank.

General Meeting of Shareholders

According to the Charter, the annual GMS must be convened no later than two months following the completion of an external audit of Bank of Georgia's books and in any case no later than six months from the end of the previous fiscal year.

The time, place and the agenda of the GMS is published in printed media at least twenty days prior to the date of such GMS. According to the Charter, the Supervisory Board determines the record date for the GMS. Shareholders holding at least 1.0% of voting Shares should be notified about the GMS via registered mail. In certain cases envisaged by the applicable laws, shareholders holding smaller stakes in the Bank's equity shall also receive notifications. The annual GMS discusses and adopts decisions on issues such as annual report and annual accounts, proposal(s) of the Management Board and Supervisory Board regarding distribution of dividends, bank's reserves and dividend policy and a justification of such policy by the Management Board, selection of the auditor and other subjects presented for discussion by the Management Board or the Supervisory Board as well as items put forward by the shareholders in accordance with Georgian Law and the Charter.

The GMS quorum is satisfied if it is attended by the holders of at least half of the voting Shares or their representatives. If there is no quorum, a new GMS shall be convened with the same agenda and within the period determined by the Supervisory Board in accordance with the procedures set by the law and the Charter. The new GMS quorum is satisfied if holders of at least 25.0% of the voting Shares are present. If there is no quorum at this new GMS a further new GMS shall be convened and such further GMS will be quorate irrespective of the number of attending and voting shareholders or their representatives.

An Extraordinary GMS ("**EGM**") is convened whenever the Management Board, the Supervisory Board or a shareholder/group of shareholders holding at least 5.0% of the issued Shares deems such a meeting necessary. Pursuant to the law, shareholders who individually or together hold at least 5.0% of the total issued capital, may, stating the subjects to be discussed, not earlier than one month from the last GMS, request that the Management Board convene an EGM. The Management Board shall convene such meeting no later than three months after the receipt of the request from the shareholder(s). If the only item on the agenda of the EGM requested by the shareholder(s) is the removal of one or more directors and such request is not satisfied within 20 days, the initiating shareholders are entitled to convene an EGM through notification of the shareholders via registered mail. Such EGM is quorate if attended by holders of not less than 75.0% of voting Shares. If the EGM is not quorate, the shareholders may reconvene the meeting no earlier than 20 days after the date of the first EGM and the quorum requirement for this second EGM shall remain the same. If the second meeting is not quorate either, the shareholders may apply to the court of relevant jurisdiction, which shall oblige the Management Board to convene an EGM within three months following adoption of the respective court resolution.

The GMS is presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman or any other member of the Supervisory Board. In the absence of members of the Supervisory Board, the meeting is presided over by the CEO. The minutes of the meeting are drawn up and certified by a notary.

All shareholders registered with the share registrar as of the record date of the GMS shall have the right to attend and vote (if applicable) at the meeting. The Law on Entrepreneurs provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter of Bank of Georgia, holders of preferred Shares are not entitled to voting rights at the GMS. As of the date of this Prospectus, Bank of Georgia has not issued any preferred Shares. Shareholders may be represented at the GMS by a proxy.

A shareholder holding more than 75.0% of Bank of Georgia's voting Shares may pass a resolution without convening a GMS. Such decision will be equivalent to the minutes of the GMS and is considered a resolution of the GMS. In such cases the remaining shareholders are notified of the resolution.

Under Georgian law and the Charter the shareholders are authorised to pass resolutions on the following issues at a GMS:

- approval and amendment of the Charter;
- increase of share capital;
- reduction of share capital in cases envisaged by applicable law;
- liquidation of Bank of Georgia;
- merger, division or transformation of Bank of Georgia into another legal entity (although under current Georgian law commercial banks must be joint stock companies);
- full or partial cancellation of pre-emptive rights during the increase of share capital;
- approval or rejection of Supervisory Board and Management Board proposals regarding the distribution of profits, or if these bodies cannot provide a joint proposal, making a decision about the use of profits;
- election or dismissal of Supervisory Board members and determination of their term of service;
- the establishment of a code of conduct for Supervisory Board members;
- approval of Supervisory Board and Management Board reports;
- remuneration of Supervisory Board members;
- election of the auditor;
- participation in litigation against Supervisory Board and Management Board members, including the appointment of a representative in such litigation;
- acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of Bank of Georgia's assets, the value of which is more than 25.0% of the equity value of Bank of Georgia;
- approval of annual accounts; and
- other issues provided by law and the Charter.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective capacities.

Supervisory Board

In accordance with Bank of Georgia's Charter, it is the responsibility of the Supervisory Board to supervise the Management Board. The Supervisory Board also assists the Management Board by giving advice. In performing their duties, the Supervisory Board members are required to act in the best interests of Bank of Georgia and its business.

Responsibilities of the Supervisory Board include:

- supervising the activities of the Management Board;
- appointing and dismissing the CEO and other directors, concluding and terminating service contracts with them, as well as working out a code of conduct for the Management Board members;
- approving and amending Bank of Georgia's policy and other regulatory documents;
- inspecting Bank of Georgia's accounts and property, including inspection of conditions of cash desk, securities and goods, personally or with the help of invited experts;
- requesting reports on Bank of Georgia's activities from the Management Board (including dealing with associated companies and subsidiaries) and reviewing the information provided by internal audit or external inspections;
- convening an EGM, if necessary;
- reviewing annual reports and the proposals of the Management Board on profit distribution;
- representing Bank of Georgia in proceedings against Bank of Georgia's CEO and other directors;
- approving annual budget;
- election and dismissal of Audit Committee members (including the chairman); and
- making decisions in other cases provided by applicable laws.

The Supervisory Board shall create an Audit Committee which mainly facilitates the activities of the internal audit and external auditors. Furthermore, the Supervisory board may decide to create other committees the composition and tasks of which are determined by the Supervisory Board. Committees report their conclusions and recommendations to the Supervisory Board.

The Supervisory Board consists of seven members. Members of the Supervisory Board may be appointed and dismissed at a GMS. Banking regulations contain certain limitations as to who may become a member of the Supervisory Board, for example, a person who has been convicted of money laundering, terrorist financing or economic crime cannot be elected to the Supervisory Board of a bank. The statutory term of each Supervisory Board member is four years. The Supervisory Board as well as each holder of voting Shares is entitled to make a recommendation on one or more candidates for each vacant seat of the Supervisory Board. Furthermore, holders of Shares representing in aggregate at least 20.0% of the issued share capital have the right to nominate, subject to the existence of a vacancy on the Supervisory Board, their representative to the Supervisory Board. The members of the Supervisory Board are elected by cumulative voting. A member of the Management Board may serve as a member of the Supervisory Board, however, members of the Management Board may not hold a majority of the seats in the Supervisory Board.

The Chairman of the Supervisory Board (or in case of his/her absence, the vice Chairman) convenes the Supervisory Board meetings and determines the agenda. Any member may add items to the agenda or request a meeting of the Supervisory Board.

Bank of Georgia's Supervisory Board currently consists of the seven members listed below. The business address for all the Supervisory Board members is 3 Pushkin Street, Tbilisi, Georgia, 0105.

Name	Age	Current Position	Year Appointed	Expiration of Term
Nicholas Enukidze	39	Chairman of the Supervisory Board	2006	2010
Allan J. Hirst	60	Vice-Chairman of the Supervisory Board	2006	2010
Jyrki Talvitie	43	Supervisory Board Member	2006	2010
Ian Hague	47	Supervisory Board Member	2004	2013
Kaha Kiknavelidze	36	Supervisory Board Member	2008	2012
Irakli Gilauri..................	33	Supervisory Board Member/CEO	2009	2013
David Morrison	57	Supervisory Board Member	2009	2013

Nicholas Enukidze was appointed as Chairman of the Supervisory Board in February 2008, having previously served as Vice-Chairman and a Special Adviser to the Supervisory Board. Prior to joining Bank of Georgia, Mr Enukidze was Managing Director of Corporate Finance for Concorde Capital, a leading Ukrainian investment banking firm. Before Concorde Capital, Mr Enukidze served as Assistant Director at ABN AMRO Corporate Finance in London for four years. Before this, Mr Enukidze worked as Senior Manager of business development of Global One Communications LLC based in Reston, Virginia. He also spent three years at ABN AMRO Corporate Finance in Moscow. Mr Enukidze currently serves as a chairman of the Supervisory Boards of Galt & Taggart Securities and BG Bank. Mr Enukidze was born and raised in Tbilisi and is a British national. He received his undergraduate degree in Physics from the Tbilisi State University and received his MBA from the University of Maryland.

Allan J. Hirst is the Vice-Chairman of the Supervisory Board. He was previously employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999-2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, with an oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior capacities at Citibank, including as Division Executive in the Middle East and Indian Sub-continent and as Division Executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as Non-Executive Director of the Financial Services Volunteer Corps, Phico Theurapeutics and RosBank. He is also Chairman of the Audit Committee, and a Member of the Compensation and Strategy Committees of RosBank as well as a Member of Executive Committee of the Board of the FSVC. Mr Hirst received an MBA from University of Texas.

Ian Hague joined the Supervisory Board in December 2004 and his term was extended to 2013 at the annual GMS held on 15 June 2009. Mr Hague is also the Managing Partner and co-founder of Firebird Management LLC. Prior to this, he worked for the United Nations Secretariat. Mr Hague received his undergraduate degree from Wesleyan University and was awarded a Masters degree from Monterey Institute of International Studies. He has also conducted graduate work at Columbia University's Harriman Institute.

Jyrki Talvitie has been a member of the Supervisory Board of Bank of Georgia since May 2006. He is also a Senior Advisor at East Capital in Moscow. Prior to joining East Capital, Mr Talvitie served as the Head of International Business at URALSIB Financial Corporation and Senior Vice President at BNP Paribas in Paris. Mr Talvitie has also previously been employed as Vice President at Bank of New York in London and Vice President, Chief Representative at the Bank of New York's Moscow Office. Mr Talvitie received an Executive MBA from the London Business School and an LLM from the University of Helsinki.

Kaha Kiknavelidze joined the Supervisory Board in February 2008. It is his second role within Bank of Georgia, having started his career as Financial Manager at Bank of Georgia in 1994. He is also the managing partner of Rioni Capital, which he founded in 2007, and where he oversees the fund dedicated to equity investments in the emerging markets. Mr Kiknavelidze has over 10 years of experience in the equity markets, including being Executive Director of UBS, supervising the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and later, as deputy head of research and associate partner, leading the oil and gas team. Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University and received his MBA from Emory University.

Irakli Gilauri was appointed to the Supervisory Board in June 2009 and has served as the CEO of Bank of Georgia since May 2006, having previously served as Chief Financial Officer since September 2004. Before his employment with Bank of Georgia, Mr Gilauri was a banker at EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian Companies. Mr Gilauri also currently serves as a member of the Supervisory Board of BG Bank, BNB, Aldagi BCI and as chairman of JSC SB Immobiliare. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, where he obtained his Master of Science Degree in Banking and International Finance.

David Morrison was appointed to the Supervisory Board in June 2009. He is also currently the Executive Director (CEO) of the Caucasus Protected Areas Fund, a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan, having held that position since 2008. Prior to joining the CPAF, David Morrison was a senior partner at Sullivan & Cromwell LLP, where he worked for 28 years. Mr Morrison graduated from Yale College, received his Law degree from UCLA, and was a Fulbright scholar at the University of Frankfurt.

Management Board

The Management Board is an executive body that is responsible for the day-to-day management of Bank of Georgia (with the exception of the functions reserved to the GMS and the Supervisory Board) and consists of the CEO and not less than three directors. The Management Board is accountable to the shareholders and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil (see "Banking Sector and Banking Regulation in Georgia - Regulation of Commercial Bank Employees"). The Supervisory Board approves the remuneration and other conditions of employment for each member of the Management Board. Certain resolutions of the Management Board are subject to the prior approval of the Supervisory Board.

Responsibilities of the Management Board include:

- conduct of Bank of Georgia's day-to-day activities;
- review of agenda items for GMS or Supervisory Board meetings, obtaining all the necessary information, preparing proposals and drafting resolutions;
- drafting and presenting to the Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and Bank of Georgia's investments plan);
- review of issues in relation to lending, settlement, financing, cash services, security, accounting and reporting of cash and valuables of Bank of Georgia and internal controls;
- decisions regarding the operation of Bank of Georgia's branches and service centres, ensuring that the branch managers and heads of service centres fulfil their tasks and functions;

- review of the information provided by internal audit or external inspections, and the reports submitted by the branch managers and heads of service centres, making appropriate decisions;
- ensuring the fulfilment of resolutions passed at the GMS and the Supervisory Board;
- developing policies, by-laws and other regulatory documents, which are approved by the Supervisory Board and ensuring compliance with such policies, by-laws and regulatory documents;
- deciding on the appointment, dismissal, training and remuneration of staff;
- convening an EGM, if necessary; and
- any other issues which may be assigned to the Management Board by the Supervisory Board and/or the GMS.

The following activities may be carried out by the Management Board only with the approval of the Supervisory Board:

- acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of Bank of Georgia's equity value as of the end of the previous calendar month;
- acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of Bank of Georgia and the volume of such transaction exceeds 2.5% of Bank of Georgia's equity value as of the end of the previous calendar month;
- establishment and liquidation of branches;
- investments, the partial or total amount of which exceeds 2.5% of Bank of Georgia's equity value as of the end of the previous calendar month;
- borrowing funds in excess of 2.5% of Bank of Georgia's equity value as of the end of the previous calendar month;
- procuring debt financing, if such financing falls outside the scope of routine economic activity;
- launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- determination of general principles of business strategy and the business plan of Bank of Georgia and the development and approval of the annual budget and long-term liabilities;
- determination of the remuneration and/or additional benefits for Bank of Georgia's top management (CEO, other members of the Management Board and any other top managers so selected by the Supervisory Board);
- appointment and discharge of trade representatives;
- approval of an agreement or contract pursuant to which non-recurring expense or several-tranche expenditure of Bank of Georgia exceeds 1.0% of Bank of Georgia's equity value as of the end of the previous calendar month;
- determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;
- determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- redemption of Bank of Georgia's shares in cases envisaged by the applicable laws or effected through share buy backs; and
- other activities that may be prescribed by applicable laws.

The Management Board is headed by the CEO. The CEO is responsible for: (i) acting independently on behalf of Bank of Georgia (subject to any required consents from the Supervisory Board); (ii) chairing meetings of the Management Board, supervising the implementation of decisions of the Management Board, Supervisory Board and the GMS, assigning tasks to the Management Board members with the consent of the Supervisory Board and to other managers of Bank of Georgia and issuing relevant orders, instructions and other directives for these purposes; (iii) submitting for approval by the Supervisory Board, recommendations on the remuneration and bonuses of Bank of Georgia's employees; (iv) appointing and dismissing employees in accordance with the employee recruitment plan approved by the Management Board; (v) carrying out any other activity required for attaining the goals of Bank of Georgia (except those that fall within the competence of the GMS or Supervisory Board). The CEO is entitled to delegate his direct tasks to other Management Board members or the heads of the relevant departments of Bank of Georgia.

Bank of Georgia's Management Board currently consists of the members listed below. The business address for all of the Management Board members is 3 Pushkin Street, Tbilisi, Georgia, 0105.

Name	Age	Current Position	Year Appointed	Expiration of Term
Irakli Gilauri.....................	33	Chief Executive Officer	2006	2010
Irakli Burdiladze	35	Deputy CEO (Chief Operating Officer)	2006	2009
Ramaz Kukuladze	38	Deputy CEO (Corporate Banking)	2006	2009
Sulkhan Gvalia.................	35	Deputy CEO (Chief Risk Officer)	2005	2009
George Chiladze...............	38	Deputy CEO (Finance)	2008	2011
Avto Namicheishvili	35	Deputy CEO (Legal Affairs)	2008	2010
Murtaz Kikoria.................	36	Deputy CEO (Compliance)	2008	2011
Mikheil Gomarteli............	34	Deputy CEO (Retail Banking)	2009	2012

Irakli Gilauri - See "Supervisory Board" above.

Irakli Burdiladze has served as Deputy CEO (Chief Operating Officer) Bank of Georgia since March 2007, after spending a year as Chief Financial Officer. Prior to joining Bank of Georgia, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the group's capital raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

Ramaz Kukuladze has held the position of Deputy CEO (Corporate Banking) since January 2006. Prior to his appointment at Bank of Georgia, Mr Kukuladze served as CEO of BCI which he co-founded in 1998. Mr Kukuladze has also served as Managing Director at Project Support Consultants and held various senior positions at Absolut Bank and TbilCredit Bank. He is currently also a member of the Supervisory Board of Aldagi BCI. Mr Kukuladze graduated from the Bank Academy of ESM University and received a BA in Economics: Banking and Finance from Tbilisi State University. He also received an executive MBA degree from the Instituto de Impresa.

Sulkhan Gvalia has been employed as Deputy CEO (Chief Risk Officer) since January 2005. Prior to this appointment, Mr Gvalia served as the Deputy Chairman of the Management Board of TUB from 1995. During his tenure at TUB, Mr Gvalia headed several departments, including finance, accounting and strategy. Mr Gvalia received his undergraduate degree from Tbilisi State University.

George Chiladze was appointed as Deputy CEO (Finance) in October 2008. Prior to joining Bank of Georgia, Mr Chiladze had served as General Director of JSC BTA Bank (Georgia) since August 2005. Prior to that, he served as an executive member of the supervisory board of JSC Europace Insurance Company (2004-2005) and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the United States at the Program Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Chiladze received an undergraduate degree in physics from Tbilisi State University and received a doctorate in physics from Johns Hopkins University.

Avto Namicheishvili has served as Deputy CEO (Legal Affairs) since July 2008, having previously been Bank of Georgia's General Counsel since March 2007. Before joining Bank of Georgia, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal advisor for three years. Mr Namicheishvili continues to serve as an arbitrator at the European International Arbitration Court in Georgia. Mr Namicheishvili received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary.

Murtaz Kikoria was appointed as Deputy CEO (Compliance) in August 2008 and Acting CEO of BG Bank in June 2009, such appointment remains subject to the approval of the NBU. Before his appointment, Mr Kikoria served as General Director of Zarapkhana Limited, Georgia's leading jewellery retailer. From 2005 to 2007, Mr Kikoria was as a Senior Banker at the EBRD. Prior to joining the EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the National Bank of Georgia from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank (now JSC BTA Bank (Georgia)). Mr Kikoria has also held the position of Chairman of Bank of Georgia's Audit Committee since February 2008. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

Mikheil Gomarteli was appointed to the Bank's Management Board as Deputy CEO (Retail Banking) in February 2009. Mr Gomarteli has been with Bank of Georgia since December 1997. During his 12 years of service with the Bank, Mr Gomarteli held various senior positions including Co-Head of Retail Banking (March 2007-February 2009), Head of Business Development (March 2005-July 2005), Head of Strategy and Planning (2004-2005), Head of Branch Management and Sales Coordination (2003-2004), Head of Branch Management and Marketing (2002-2003) and Head of Banking Products and Marketing (2000-2002). Mr Gomarteli received an undergraduate degree from Tbilisi State University in Economics.

Executive Officers

The names of Bank of Georgia's executive officers (the "**Executive Officers**"), together with their respective ages, positions and qualifications are set out below.

Name	Age	Current Position	Year Appointed
Shahram Sharifi	49	Head of Strategic Projects	2008
Murtaz Kikoria	36	Acting CEO, BG Bank	2009
Constantine Tsereteli	37	Acting CEO, BNB	2009
Natalie Beridze	39	Head of Human Resources	2004
Vasil Revishvili	36	Head of Wealth Management	2008
Macca Ekizashvili	35	Head of Investor Relations	2004
Thea Jokhadze	32	Head of Debt Capital Markets	2005
Vasil Khodeli	32	Head of Corporate Banking	2004
David Vakhtangishvili	31	Head of Finance Department	2007
Nick Piazza	32	Managing Director, GTS	2008
Alexander Oleshko	32	Chief Information Officer	2007
Nickoloz Gamkrelidze	29	CEO, Aldagi BCI	2007
Tornike Gogichaistivili	30	Head of International Business	2009

Shahram Sharifi was appointed Head of Strategic Projects of the Bank in January 2009, having previously served as Head of Retail Banking since July 2008. Prior to these appointments with the Bank, Mr Sharifi worked at Consumer Credit Development Limited, a retail credit risk management consulting firm, based in Brighton, United Kingdom, which he set up after leaving Lloyds TSB Group in April 2006. Mr Sharifi brings over twenty five years experience in the area of retail credit risk management with the United Kingdom's leading retail banks. Mr Sharifi received an undergraduate degree from Sussex University, a Master's Degree in Science from Sussex University in Science and a Master's Degree from Brighton University in Philosophy.

Murtaz Kikoria. See "—Management Board" above.

Constantine Tsereteli was appointed Deputy CEO of BNB in February 2009 and Acting CEO of BNB in June 2009, such appointment remains subject to the approval of the National Bank of Belarus. Prior to this appointment, Mr Tsereteli served as Co-Head of Retail Banking at Bank of Georgia from March 2006 to February 2009. Before joining Bank of Georgia, Mr Tsereteli worked as Deputy Director/Head of Marketing and PR Department at Constanta Foundation (currently JSC Constanta Bank) from December 2001 until March 2006. Prior to joining Contstanta Foundation, M. Tsereteli served as Program Officer and Child Centred Program Coordinator at World Vision Georgia (2000-2001). Prior to that, Mr Tsereteli worked as Project Manager at International Foundation Multiple Assistance to Georgia (1997-1998). Mr Tsereteli received an undergraduate degree from Tbilisi State University in literature, a Master's Degree from Oxford University in Patristics/Byzantine studies and Master's Degree from Central European University, Hungary in Medieval Studies.

Natalie Beridze was appointed Head of Human Resources Management Department of the Bank in January 2005. Prior to this appointment, Mrs Beridze served as Head of Human Resources Department at TbilUniversalBank. Before that, Mrs Beridze worked as Head of Personnel Management Department at TbilComBank from 1997 to 2001 and Deputy Head of the Organisational Department at TbilComBank from 1996 to 1997. Mrs Beridze received an undergraduate degree from Tbilisi State University in Psychology.

Vasil Revishvili was appointed Head of Wealth Management Unit in December 2008. Mr Revishvili joined the Bank in August 2008 as Head of Structured Products. Prior to joining the Bank, Mr Revishvili worked for four years at Pictet Asset Management in London and Geneva as Head of the Investment Risk Unit and later as a Senior Investment Manager in the Balanced and Quantitative Investment Team. From 1995 to 2003, Mr Revishvili held various positions at EU-TACIS Counterparty Fund, Georgian Investment Centre and World Bank Tbilisi Water Project. Mr Revishvili received an undergraduate degree in applied mathematics and computer sciences from Tbilisi State University and a Masters Degree in Finance with distinction from the London Business School. Mr Revishvili is also a designated Financial Risk Manager by the Global Association of Risk Professionals.

Macca Ekizashvili has served as Head of Investor Relations of Bank of Georgia since August 2004. Prior to joining Bank of Georgia, Ms. Ekizashvili worked for six years as an investment analyst at IFC in Washington D.C. and Tbilisi, Georgia Representative Office. Ms. Ekizashvili holds an MBA from George Washington University School of Business and received her undergraduate degree from the International Relations Department at Tbilisi State University.

Thea Jokhadze has served as the Head of Funding of Bank of Georgia since August 2005. Before joining Bank of Georgia, Ms. Jokhadze worked as a consultant with Pace Global Services in Washington D.C., providing financial advisory services to financial institutions and energy companies. Prior to Pace Global Services, Ms. Jokhadze spent two years as a Structuring and Pricing Analyst with the Marketing and Trading arm of CMS Energy Corp. in Houston, Texas, where she structured and priced long-term energy transactions. She was awarded a Chartered Financial Analyst title from the CFA Institute. Ms. Jokhadze holds a Masters Degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and received her undergraduate degree in International Economics from the Georgian Technical University.

Vasil Khodeli has served as Head of Corporate Banking at Bank of Georgia since October 2004. Prior to being appointed to this position, Mr Khodeli worked at various positions at Bank of Georgia, including as a regional branch manager, Deputy Manager of Central Branch, Senior Credit Officer of Credit Risk Management, Secretary of the Supervisory Board and as Chief Analyst of Credit Risk Department. Prior to joining Bank of Georgia, Mr Khodeli served as Senior Officer of the

Operational Department (1998- 1999) and Customer Service Officer (1996-1998) at TbilInterBank. Mr Khodeli received a Masters Degree in Economics from Tbilisi State University.

David Vakhtangishvili was appointed as Head of the Finance Department of Bank of Georgia on 1 January 2007. Mr Vakhtangishvili has more than nine years of experience working for international audit firms. Prior to joining Bank of Georgia, Mr Vakhtangishvili served as the Senior Manager of Ernst & Young (Georgia) for four years, serving numerous clients in the CIS in a wide range of industries, with expertise in the financial services industry. Over the past nine years, Mr Vakhtangishvili has focused on auditing the financial statements of clients that have been prepared in accordance with IFRS and has extensive experience in transforming accounts prepared in accordance with national standards to IFRS. Mr Vakhtangishvili additionally specialises in conducting forensic audits, financial and operational due diligence, property and business valuations and market feasibility studies as well as provides operational management optimisation and risk management advice. Mr Vakhtangishvili holds a BBA from ESM-Tbilisi.

Nick Piazza has been managing GTS since December 2008. Prior to that, Mr Piazza acted as Head of Sales at GTS and was tasked with helping boost the company's trading volumes with international accounts and increasing market share and turnover. Prior to joining GTS, Mr Piazza worked as Director of Corporate Relations at Concorde Capital, coordinating several different departments in the company including sales, research and corporate finance. Before that, he worked for Interfax in Moscow. He received his BA degree from the University at Lake Forest College in Chicago, Illinois.

Alexander Oleshko was appointed Chief Information Officer of Bank of Georgia in November 2006. Prior to joining Bank of Georgia, Mr Oleshko worked as Chief Operations Officer at Superweb Ukraine Ltd from 2005 to 2006. Before that he, worked at Freight Audit Manager in Kyiv, Ukraine from 2004 to 2005. Prior to joining Freight Audited Manager, Mr Oleshko worked as Head of Department of Software and Hardware Utilisation at Moscomprivatbank from 2000 to 2004 and as an Expert of Fine-tuning of the Internal Business Processes from 1999 to 2000 at Premier Bank in Kyiv, Ukraine. Prior to joining Premierbank, Mr Oleshko worked as Senior Expert in International Payments at Privatbank from 1996 to 1999 in Kyiv, Ukraine. Mr Oleshko holds a diploma in Philology from Dniepropetrovsk National University.

Nikoloz Gamkrelidze has served as CEO of Aldagi BCI since November 2007. He served as CEO of JSC My Family Clinic prior to joining Aldagi BCI from October 2005 to October 2007. Prior to joining My Family Clinic, Mr Gamkrelidze served as a consultant at Primary Health Care Development Project (The World Bank Project) and worked on the development of Pharmaceutical policy and Regulation in Georgia. Prior to joining Primary Health Care Development Project, Mr Gamkrelidze served at BCI Insurance Company as a Head of Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at State Medical Insurance Company in 1998 and served there until 2002. Mr Gamkrelidze has approximately 10 years of experience in the health care management and insurance sectors. He graduated from Tbilisi State Medical University faculty of General Medicine with distinction and holds a Masters degree in International Health Care Management from Imperial College London, Tanaka Business School.

Tornike Gogichaishvili was appointed as Head of International Business of the Bank in July 2009, after serving as CFO of BG Bank in Ukraine since 1 February 2008. Prior to BG Bank, Mr. Gogichaishvili served as the General Director of BCI (currently Aldagi BCI) since January 2006. Mr. Gogichaishvili worked as CFO at PA Consulting Group/United Energy Distribution Company ("**UEDC**") of Georgia from 2004 to 2006. Prior to joining UEDC in 2004, Mr. Gogichaishvili served in various positions at BCI, including as CFO in 2004, Operations Director in 2003 and 2004 and as a legal counsel in 2002 and 2003. Mr. Gogichaishvili holds an MBA from Caucasus Business School and an LLM from Tbilisi State University, Faculty of International Law and International Relations.

Audit Committee

According to the Banking Law, Georgian banks are required to have an audit committee which mainly facilitates the activities of the internal audit and external auditors of a bank. The audit committee is formed by the Supervisory Board. Bank of Georgia's Audit Committee is comprised of not less than three members. If there are independent members in the Supervisory Board, at least one of them shall be elected to the Audit Committee. If there are no independent members in the Supervisory Board, any other member of the Supervisory Board shall be elected to the Audit Committee. The Audit Committee is presided over by the chairman who is elected by the Supervisory Board.

The rights and obligations of the Audit Committee are to:

- set the accounting and reporting rules for Bank of Georgia, supervise the compliance with such rules and inspect Bank of Georgia's books and journals through Bank of Georgia's internal audit service;
- supervise the compliance of Bank of Georgia with the applicable laws;
- approve the regulations governing Bank of Georgia's internal audit services and ensure the functioning of the internal audit service of Bank of Georgia;
- ensure the independence of the internal audit service from the Supervisory and the Management Boards;
- approve the operation plan of the internal audit service for the following fiscal year;
- review the quarterly reports of the internal audit service, approve and present to the Supervisory Board and the Management Board audit inspections and recommendations;
- supervise the activities of the internal audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the internal audit service and individual auditors;
- approve the annual operations plan by quarters prepared by the internal audit service and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Supervisory Board and Management Board ensure the cooperation of the internal audit service with other structural units of Bank of Georgia;
- make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of Bank of Georgia's internal audit service, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the internal audit service) to the Management Board on the employment/dismissal of the other staff of internal audit service, as well as on remuneration of such staff;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Supervisory Board.

Meetings of the Audit Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Supervisory Board. The Audit Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Since December 2008, Allan J. Hirst, Nicholas Enukidze and Kaha Kiknavelidze have served as Audit Committee members of Bank of Georgia. See "Supervisory Board" above. Allan J. Hirst, a member of the Audit Committee since July 2008, serves as a chairman of the Audit Committee. The business address for all of the Audit Committee members is 3 Pushkin Street, Tbilisi, Georgia, 0105.

Remuneration and Benefits

The aggregate remuneration of the Management Board and the Supervisory Board was GEL 7.8 million (U.S.$4.7 million) for the year ended 31 December 2008. The amount of remuneration paid to members of the Supervisory Board is determined by the GMS. The remuneration of the Management Board is determined by the Supervisory Board.

The Supervisory Board (and, in case of Mr Enukidze and Mr Gilauri, its members acting as the de facto Compensation Committee) determines on an annual basis the amount of the cash bonus of the members of the Supervisory Board (within the limits set by the GMS) and Management Board members. Mr Gilauri, who is a member of both boards, receives his compensation in his capacity as CEO only. Bank of Georgia has the option to implement one-year deferments of a portion of the cash bonus with regard to its key employees (including, without limitation, the Management Board members) and Supervisory Board members. In the case of deferment, such deferred portions of the cash bonus are invested in Bank of Georgia's shares, debt securities or placed on deposit with Bank of Georgia, with the employees entitled to any capital gains, dividend income or interest income from such instruments.

The table below sets forth the remuneration in salary, bonuses and benefits in kind to the five highest paid current members of Bank of Georgia for the year ended 31 December 2008, as per IFRS accounts.

Name	Current Position	2008 Salary	2007 Bonus	Total Remuneration Received in 2008
	(Remuneration in Lari)			
Nicholas Enukidze	Chairman of the Supervisory Board	869,265	1,272,358	2,141,623
Irakli Gilauri	Supervisory Board Member and CEO	823,650	1,371,044	2,194,694
Avto Namicheishvili	Deputy CEO, Legal Affairs	179,353	286,191	465,544
Ramaz Kukuladze	Deputy CEO, Corporate Banking	148,733	249,993	398,726
Sulkhan Gvalia	Deputy CEO, Chief Risk Officer	148,116	249,993	398,109

In May 2006, the Supervisory Board established the Compensation Committee and appointed Mr Hague, Mr Talvitie and Mr Gelovani as its members. On 6 November 2006, Mr Gelovani resigned from the Compensation Committee. The Supervisory Board appointed Mr Hirst to the Compensation Committee in his place.

Loans to Management

As of 31 December 2006, 2007 and 2008, total loans outstanding, net, issued to management members of Bank of Georgia totalled GEL 0.4 million, GEL 0.3 million and GEL 0.4 million (U.S.$0.3 million), respectively.

Interests of Management

The following table shows the beneficial ownership of Shares as of the date of this Prospectus by the current members of the Management Board, Supervisory Board and Executive Officers.

Name	Position	Number of Shares Held[1]
Irakli Gilauri	Supervisory Board Member and CEO	136,303
Sulkhan Gvalia	Deputy CEO, Chief Risk Officer	122,050
Nicholas Enukidze	Chairman of the Supervisory Board	74,332
Ramaz Kukuladze	Deputy CEO, Corporate Banking	52,092
Allan Hirst	Supervisory Board Member	29,657
Kakha Davitaia	Head of Treasury	28,733
Avto Namicheishvili	Deputy CEO Legal	14,154
Irakli Burdiladze	Chief Operating Officer	10,036
Macca Ekizashvili	Head of IR	8,983
Vasil Revishvili	Head of Wealth Management	6,945
Vasil Khodeli	Head of Corporate Banking	5,564
Kaha Kiknavelidze	Supervisory Board Member	4,938
Thea Jokhadze	Head of Funding	4,537
Natalie Beridze	Head of HR	3,895
David Vakhtangishvili	Head of Finance Department	3,000
Mikheil Gomarteli	Deputy CEO, Retail Banking	2,717
Constantine Tsereteli	Acting CEO, BNB	2,640
Alexander Oleshko	Chief Information Officer	1,733
Shahram Sharifi	Head of Strategic Projects	1,667
Nikoloz Gamkrelidze	CEO of Aldagi BCI	1,667
Tornike Gogichaishvili	Head of International Business	1,500

Notes:
(1) These figures include shares held, shares held in the form of GDRs and GDR options vested.

There are no potential conflicts of interest between any duties of the members of the Supervisory Board, the Management Board or the Executive Officers of Bank of Georgia towards Bank of Georgia and their private interests and/or other duties.

Litigation Statement about Directors and Officers

As of the date of this Prospectus, no member of the Management Board or Supervisory Board or Executive Officer for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Employees

As of 31 December 2008, 2007, 2006, the Bank had a total of 4,979, 4,459 and 2,225 employees, respectively.

The Bank places significant emphasis on the professional development of its employees. The Bank's employees are offered training opportunities at special training centres and various educational institutions. Middle and high level managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

The Bank first signed an agreement with an employee trade union in 2001. The next employee trade union agreement was executed in 2004 for a term of four years. Upon expiration of the latter, the Bank executed a one-year employee trade union agreement on 1 January 2009, which may be extended with similar terms and conditions upon mutual agreement of the parties. The principal terms of the current agreement require the Bank to observe the provisions of the labour law, to consider trade union proposals and upon an employee's request, deduct trade union membership fees from his or her salary for payment to the trade union.

The Bank is required to withold income tax at the flat rate of 20.0% on the gross salary of employees as well as on certain type of business income of natural persons. There are no other mandatory contributions.

As of 30 June 2009, 201 employees, excluding members of the Management Board and Supervisory Board, held an aggregate of approximately 185,000 Shares in Bank of Georgia, representing approximately 0.6% of the Bank's issued share capital.

Every employee contributes 1.0% of his/her salary to a pension fund and the Bank matches the employee's contribution to the pension fund. The Bank matches on a 0.2 to 1 basis additional employee pension fund contributions up to 1.0% of the employee's gross monthly salary. In addition to a pension fund, full-time employees of the Bank receive health insurance, are permitted to use an overdraft of up to 90% of his or her salary, certain discounts on banking products and may be eligible to receive an annual bonus, subject to the Bank's annual profit and the employee's performance.

Executive Equity Compensation Plan ("EECP")

On 6 November 2006, the Bank established the EECP, which is being implemented through a Jersey trust administered by RBC cees Trustee Limited (the "**Trustee**"). The Bank settled the trust with GEL 1.5 million. In connection with the EECP, the trust subscribed to 850,000 Shares in the form of restricted GDRs of Bank of Georgia at the time of Bank of Georgia's initial public offering. On 31 July 2007, the trust further subscribed to an additional 650,000 Shares in the form of restricted GDRs.

In December 2006, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 206,000 Shares in the form of restricted GDRs to 18 executives of the Bank pursuant to the EECP in respect of the year ended on 31 December 2005. The awards will vest in three equal instalments during three years, subject to the executive's continuous employment.

In February 2007, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 267,550 Shares in the form of restricted GDRs to 23 executives of the Bank pursuant to the EECP in respect of the year ended 31 December 2006. The awards will vest in three equal instalments during three years, subject to the executive's continuous employment.

In November 2007, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 93,629 Shares in the form of restricted GDRs to three executives of the Bank pursuant to the EECP. With the exception of the award granted to Mr Lado Gurgenidze, which has already vested, each award will vest fully, or partially, or will not vest at all, on the third anniversary of the date of the grant, subject to satisfaction of the vesting conditions.

In November 2007, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 10,000 Shares in the form of restricted GDRs to one executive of the Bank pursuant to the EECP. The first 5,000 Shares vested immediately and the remaining Shares are subject to a three year vesting period, subject to the executive's continuous employment.

In March 2008, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 68,139 Shares in the form of restricted GDRs to two executives of the Bank. Each award will vest fully, or partially, or will not vest at all, on the third anniversary of the date of the grant, subject to satisfaction of the vesting conditions.

In May 2008, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 172,000 Shares in the form of restricted GDRs to 22 executives of the Bank pursuant to the EECP in respect of the year ended 31 December 2007. The awards will vest in three equal instalments during three years, subject to the executive's continuous employment.

In September 2008, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 5,000 Shares in the form of restricted GDRs to one executive of the Bank pursuant to the EECP. The award is subject to a three year vesting period, subject to the executive's continuous employment.

In January 2009, Bank of Georgia's Supervisory Board recommended and the Trustee resolved to award 3,000 Shares in the form of restricted GDRs to one executive of the Bank pursuant to the EECP. The first 1,000 Shares vested immediately and the remaining Shares will vest in two equal instalments during a two year vesting period, subject to the executive's continuous employment.

In February 2009, Bank of Georgia's Supervisory Board approved to award 372,750 Shares and/or Shares in the form of restricted GDRs to 27 executives of the Bank in respect to the year ended 31 December 2008. The awards will vest in three equal instalments during three years, subject to the executive's continuous employment. None of the above-mentioned awards have been recommended to the Trustee to be awarded as of the date of this Prospectus.

In July 2009, Bank of Georgia's Supervisory Board approved to award 420,000 Shares and/or Shares in the form of restricted GDRs to 23 executives of the Bank as part of a one-off award, which will vest on 1 October 2012, subject to the executive's continuous employment. None of the above-mentioned Shares and/or Shares in the form of restricted GDRs have been awarded as of the date of this Prospectus.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the Shares as of 30 June 2009:

Owner	Shares Owned Number	%
GDR holders (through BNY Nominees Limited)[1]	23,716,895	75.8%
Firebird Avrora Fund	1,588,682	5.1%
Firebird Republics Fund	1,305,145	4.2%
Byrum Limited	411,444	1.3%
East Capital Financial Institutions	1,366,306	4.4%
Shares held by other institutional investors	135,811	0.4%
Management and employees[2]	1,491,683	4.8%
Shares held by domestic and foreign retail shareholders	1,255,559	4.0%
Total Shares outstanding	**31,271,525**	**100%**

Notes:

(1) Excludes 1.1 million GDRs held as part of the EECP.

(2) Includes 1.1 million GDRs held as part of the EECP, which includes awarded and unvested EECP options and EECP options not yet awarded.

None of Bank of Georgia's shareholders has voting rights different from any other holders of Shares.

Related Party Transactions

In the ordinary course of its business, the Bank has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, all managers and senior personnel of the Bank, companies affiliated with the Bank and certain shareholders of such affiliated companies. Furthermore, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control.

The Bank believes that its related party transactions are conducted on market terms and at market prices.

According to the Charter of the Bank, any transaction with related parties of the Bank shall be subject to the prior approval of the Supervisory Board if the value of such transaction does not exceed 50% of the assets of the Bank. If the value of such transaction exceeds 50% of the assets of the Bank, the transaction shall be approved by the GMS.

The Supervisory Board is not permitted to delegate its authority to other bodies without the consent of the shareholders. In June 2007, the shareholders of the Bank consented to the Supervisory Board's delegation to the Management Board and/or respective committees of the authority to approve related party transactions, provided that (a) the cumulative value of the transaction(s) with any single related party does not exceed 1% of the regulatory capital of the Bank and (b) the members of the Management Board and/or respective committee shall not participate or vote in any discussions regarding any transaction where such member has a conflict of interest. In October 2008, the Supervisory Board delegated to the Management Board and the Credit Committee the right to approve related party transactions in accordance with the Charter, provided that the Credit Committee is only authorised to approve transactions not exceeding U.S.$500,000 or its equivalent per single related party.

In July 2007, the Bank was fined GEL 773,697 by the NBG in connection with breaches of NBG Order No. 116 dated 4 May 2001. The NBG alleged that two convertible subordinated loans issued to related parties, which were fully consolidated subsidiaries of the Bank, in December 2006 and January 2007 were on more favourable interest rates than the Bank would offer to third parties. Although the Bank believes that the interest rates were at arms' length, because of the lack of a developed domestic market for convertible loans, the Bank accepted the NBG finding and did not dispute the fine.

The following tables show volumes of related party transactions, outstanding balances at the period end and related party expense and income for the periods indicated. For further details of certain of these transactions, see Note 30 to the Financial Statements included in this Prospectus.

	2006			**2007**			**2008**		
	Share-holders	**Associates**	**Top Manage-ment Personnel**	**Share-holders**	**Associates**	**Top Manage-ment Personnel**	**Share-holders**	**Associates**	**Top Manage-ment Personnel**
	(*Amounts in thousands of Lari*)								
Loans outstanding as of 1 January gross	—	**3,272**	**1,143**	—	**6,010**	**312**	—	**13,598**	**520**
Loans issued during the year	—	11,494	591	—	14,237	507	1,339	12,085	8,229
Loans repayments during the year	—	(8,756)	(1,422)	—	(6,649)	(299)	(1,074)	(9,709)	(3,375)
Other movements	—	—	—	—	—	—	—	5,994	208
Loans outstanding as of 31 December, gross	—	**6,010**	**312**	—	**13,598**	**520**	**265**	**21,968**	**5,582**
Less: Allowance for impairment as of end of period	—	(185)	(6)	—	(324)	(10)	—	(3,181)	(1,064)
Loan outstanding as of 31 December net	—	**5,825**	**306**	—	**13,274**	**510**	**265**	**18,787**	**4,518**
Interest income on loans	—	**634**	**10**	—	1,102	58	—	2,125	468
Loan impairment charge	—	(55)	17	—	139	4	—	3,099	120
Deposits as of 1 January	**—**	**1,751**	**113**	**11,281**	**2,944**	**7,252**	**12,733**	**4,485**	**626**
Deposits received during the year	11,281	36,246	13,672	1,452	95,488	12,038	—	79,356	53,081
Deposits repaid during the year	—	(35,053)	(6,533)	—	(93,947)	(18,664)	—	(83,638)	(35,450)
Other movements	—	—	—	—	—	—	—	(26)	67
Deposits as of 31 December	**11,281**	**2,944**	**7,252**	**12,733**	**4,485**	**626**	**12,733**	**177**	**18,324**
Interest expense on deposits	483	147	157	746	178	97	—	2	14
Other income	—	—	—	—	—	852	767	—	32

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF GEORGIAN LAW

*Set forth below is a description of Bank of Georgia's Shares, the material provisions of the Charter in effect on the date of this Prospectus and certain requirements of Georgian legislation, including a description of certain rights of the holders of the Shares and related provisions of the Charter and of the Law on Entrepreneurs, Georgian Law on Securities Market (the "**Georgian Securities Act**") and the Banking Law. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and the laws.*

General

Bank of Georgia was incorporated as Joint Stock Company Bank of Georgia, a joint stock company, under the laws of Georgia. Bank of Georgia was registered under number 06/5-07 by Krtsanisi District Court on 29 November 1995. Prior to Bank of Georgia's incorporation as a joint stock company, Bank of Georgia was established through the privatisation of the state bank "Binsotsbank" and was registered as a commercial bank under the registration number 86 on 15 December 1994. The address of Bank of Georgia is 3 Pushkin Street, Tbilisi, Georgia, 0105. Bank of Georgia is registered with Tax Inspection of Large Taxpayers under the number 204378869.

Objects

Pursuant to Article 2 of the Charter, the objects of Bank of Georgia are:

- to receive interest bearing and non-interest bearing deposits (demand, time and other) and other refundable payment instruments;
- to extend loans, including, without limitation, consumer loans, mortgage loans, unsecured loans and other types of loans and engage in factoring operations with and without the right of recourse, trade finance, the issuance of guarantees, letters of credit and acceptance bills, including forfeits;
- to purchase and sell monetary instruments for Bank of Georgia's own and client accounts (including, without limitation, cheques, promissory notes and depositary certificates), securities, futures, options and swaps with debt instruments and/or interest rates, currencies, interest rate instruments, debt instruments, foreign exchange instruments, precious metals and gems;
- to carry out cash and non-cash transactions and provide cash collection services;
- to issue and circulate payment tools (payment notes, cheques and bills of exchange);
- to provide intermediary services on financial markets;
- to carry out operations, attract and place funds on behalf of clients (trust operations);
- to safe keep and register valuables, including securities;
- to provide credit-information services;
- to provide services related to any of the activities provided above;
- to carry out any other type of banking activity which is permissible under the laws of Georgia.

Share Capital

The Shares have been issued under the laws of Georgia. As of the date of this Prospectus, Bank of Georgia's authorised share capital consists of 43,308,125 Shares with a nominal value of GEL 1.00 per Share. Bank of Georgia's issued share capital as of the date of this Prospectus consists of 31,294,603 fully-paid registered Shares with a nominal value of GEL 1.00 per share, all of which are fully paid.

Changes in Share Capital

Upon incorporation as a commercial bank, Bank of Georgia's authorised and issued share capital amounted to the equivalent of U.S.$1,600,000, consisting of 1,600,000 Shares with a nominal value of U.S.$1.00 equivalent, all of which were fully paid.

From 1998 to 2004, Bank of Georgia's authorised share capital amounted to GEL 13,000,000 consisting of 13,000,000 Shares with a nominal value of GEL 1.00 each. Following the resolution of the GMS held on 2 August 2004, the Charter was amended to reflect the increase of the authorised share capital of Bank of Georgia to GEL 14,783,409 consisting of 14,783,409 Shares with a nominal value of GEL 1.00 each. In December 2005, the Charter was amended at the GMS, to reflect an increase in the authorised capital of Bank of Georgia to GEL 19,783,409, consisting of 19,783,409 Shares with a nominal value of GEL 1.00 each. In November 2006, the GMS increased the authorised capital amount to GEL 25,335,619 consisting of 25,335,619 Shares with a nominal value of GEL 1.00 each. In June 2007, the GMS increased the authorised share capital amount to GEL 32,835,619 consisting of 32,835,619 Shares with a nominal value of GEL 1.00 each. In May 2008, the GMS increased the authorised share capital to GEL 39,835,619 consisting of 39,835,619 Shares with a nominal value of GEL 1.00 each. In June 2009, the GMS further increased the authorised share capital to GEL 43,308,125 consisting of 43,308,125 Shares with a nominal value of GEL 1.00 each.

Except as disclosed in this section, there has been no change in the amount of authorised share capital of Bank of Georgia in the two years preceding the date of this Prospectus.

Form and Transfer of Shares

The Shares are in registered form. They are available in the form of an entry in the share register of Bank of Georgia without the issuance of a share certificate.

Subject to Georgian law and the Charter, shares can only be transferred by the registration of the transfer in the share registry kept by the independent registrar of Bank of Georgia's shares, or in the registry kept by the brokerage company to whom the shareholders have transferred their shares into nominal ownership, all in accordance with the provisions of Georgian law and the Charter.

Issue of Shares and Pre-emption Rights

Shares or rights or options thereto may be authorised or issued pursuant to a resolution adopted by the GMS. The resolution to increase the authorised share capital must specify the number and class of shares that may be issued and the period, not exceeding five years, during which the authorisation will be effective. See "—Capital Increase and Reduction".

Under Georgian law, shares may not be issued below their nominal value.

Bank of Georgia's authorised share capital is currently made up entirely of ordinary shares. However, the Charter provides that Bank of Georgia has the right to issue preferred shares which entitle their owners to a specific rate of dividend. Under the Law on Entrepreneurs, the amount and rules for preferred dividend payout can be defined under the Charter. The Law on Entrepreneurs further states that holders of ordinary shares have voting rights at the GMS while holders of preferred shares are not entitled to such rights. The Law on Entrepreneurs allows the company to differently regulate the rights attached to ordinary and preferred shares in the Charter. Bank of Georgia's Charter states that the amount and rules for preferred dividend payout will be defined in a relevant share issue prospectus (if any) in accordance with the applicable laws and also confirms that the holders of ordinary shares have voting rights while the preferred shareholders will not be entitled to voting rights. Bank of Georgia may issue other securities convertible into ordinary and/or preferred shares.

Under the Charter, shareholders have pre-emption rights to subscribe for shares upon the issue of new shares in proportion to the aggregate amount of shares they hold. According to the Charter, a pre-emption right does not apply to the shares issued out of the part of authorised but unissued capital designated by the GMS for employee share ownership purposes. Pre-emption rights may be restricted or excluded by resolution of the GMS, approved by more than 75% of those present and voting at the GMS. If the share capital is increased by means of conversion of reserve funds into the share capital, it is forbidden to exclude the shareholders' pre-emptive rights to subscribe for any newly issued shares as a result of this conversion. Georgian law does not regulate the mechanism for the issue of shares subject to pre-emption rights and the period during which these rights can be exercised. However, the Charter provides that the shareholders of Bank of Georgia are entitled to use their pre-emption rights towards the newly issued shares, for which the pre-emption rights have not been excluded at the GMS, and those willing to exercise such rights, shall acquire the shares within 20 days from the date of the relevant notification by Bank of Georgia.

Dividends

The distribution of profits and payment of a dividend by Bank of Georgia are subject to compliance with the Law on Entrepreneurs and the Charter. Dividends may in principle only be paid out after adoption of the annual accounts, showing that the distribution of dividends is permissible, and out of net profits of Bank of Georgia. The Management Board prepares a proposal on the distribution of dividends which must be approved by the Supervisory Board. If the Supervisory Board and the Management Board cannot agree on the proposal, both proposals shall be submitted at the GMS for approval. See "—Profit and Loss; Distributions".

Repurchase by the Issuer of Its Own Shares

The Bank may acquire up to 10% of the shares in Bank of Georgia's issued share capital for an indefinite period of time ("**Treasury Shares**"). The acquisition will be subject to the approval of the Supervisory Board. Treasury Shares are non-voting shares, do not attract dividends and are not accounted for in a liquidation or enforcement proceedings in respect of other rights in relation to the shares.

In cases where amendments made to the Charter materially infringe a shareholder's rights and in certain circumstances when a shareholder voted against a resolution passed at the GMS, that shareholder may request that Bank of Georgia buy out his/her shares. In such case, the 10% limit does not apply. The shares are bought out at a market price, or if the market price is not known, at a fair price determined by the Supervisory Board. The shareholder may appeal in court against the price determined by the Supervisory Board.

Capital Increase and Reduction

A Georgian joint stock company is entitled to increase the issued share capital, as well as the authorised but unissued share capital, at a GMS. In the latter case, the GMS authorises the Management Board to issue new share capital with the approval of the Supervisory Board. Such resolution of the GMS must specify the number and class of shares that may be issued and the period, not exceeding five years, during which the authorisation will be effective. If and when so decided by the GMS, part or all of the authorised but unissued share capital may be allotted for an employee share ownership plan subject to approval by the Supervisory Board. In such case, the issuance of new shares for any other purpose out of the authorised but unissued share capital so designated for the employee share ownership plan is forbidden. The pre-emptive rights shall not apply to the authorised but unissued share capital (or any part thereof) designated for the employee share ownership plan in accordance with the decision of the GMS.

The share capital can also be increased by means of conversion of reserve funds into share capital. In such a case, it is forbidden to exclude the shareholders' pre-emptive rights to subscribe for any newly issued shares as a result of this conversion. See "— Issue of Shares and Pre-emption Rights".

According to the Charter, the GMS is authorised to adopt a decision on reduction of the share capital in cases envisaged by applicable laws. Pursuant to the Banking Law, Bank of Georgia may not reduce its share capital through redemption of Shares without the prior written consent of the FSA and without making respective amendments to the Charter.

Liability of Shareholders

A shareholder is required to pay for shares issued to that shareholder in order to ensure registration of the relevant number of shares in his/her name and to act in accordance with the provisions of the Charter of Bank of Georgia.

Voting Rights

Each share (except preferred shares and Treasury Shares) confers the right to cast one vote at the GMS. There are no restrictions, either under Georgian law or in the Charter, on the right of non-residents of Georgia or foreign owners to hold shares in a Georgian joint stock company or exercise the voting rights attaching to those shares. In order to be validly passed, resolutions must be adopted by at least a simple majority of the holders of voting shares present (or represented) at the GMS, unless Georgian law or the Charter requires a greater majority.

Financial Statements and Auditor

The financial year of Bank of Georgia coincides with the calendar year. The Management Board must prepare Bank of Georgia's annual accounts and make the accounts available for inspection by the shareholders. The annual accounts are adopted at the GMS.

The external auditor is elected annually at the GMS. The auditor is required to be economically and legally independent from Bank of Georgia, its directors and shareholders. The obligatory annual audit review by the selected external auditor includes accounting procedures, balance sheet and business practice of Bank of Georgia and is conducted in accordance with the rules set by the FSA. Immediately upon the completion of the annual audit, the full report is presented to the FSA. Bank of Georgia's consolidated financial statements and auditor's report are published in accordance with the rules set by the FSA.

Profit and Loss; Distributions

Distribution of profits is made after adoption at the GMS of the annual accounts showing that the distribution is permissible. The Law on Entrepreneurs, the rules of the securities market regulator and the Charter set forth the procedure for distribution of dividends, if any, to the shareholders of Bank of Georgia. Dividends can only be paid out of the net profits of Bank of Georgia. According to the Charter, within one month from the completion of the annual audit, but in any case, at least one month prior to the annual GMS, the Management Board is required to prepare a proposal on the distribution of profit and submit this proposal to the Supervisory Board for approval. If the Management Board and the Supervisory Board fail to reach an agreement on the distribution of profits, both the Management Board and the Supervisory Board will submit separate proposals to the GMS. Distribution of profits is resolved at the GMS. The payment of dividends takes place not more than two months after the date of the GMS which resolved on the distribution of profits.

There is no prescribed amount of dividend for holders of Shares.

Merger, Division, Amendment of Articles, Liquidation

When a proposal to amend the Charter of Bank of Georgia is made at the GMS, the proposal must be mentioned in the notification for convening the GMS.

According to the Charter, the GMS is quorate if holders of at least 50% of voting shares are present. A resolution by the GMS relating to (i) approval and amendment of the Charter (including, without limitation, change of share capital amount, company's name, etc.); (ii) approval of the merger, division, transformation or liquidation of the bank; and (iii) full or partial exclusion of pre-emption rights at the time of increase of share capital must be adopted by holders of more than 75% of the voting shares present (or represented) at the GMS. Under current Georgian law banks must be joint stock companies. Unless the law is changed, Bank of Georgia cannot be transformed into another legal entity.

Liquidation

Liquidation of Bank of Georgia shall be conducted in accordance with the rules set by the FSA and applicable laws. If Bank of Georgia is liquidated, the shareholders will receive their pro rata share of the assets remaining after the payment of the claims of the creditors.

Corporate Governance

Georgia has not adopted a code of corporate governance and therefore Bank of Georgia is not subject to the requirements of any national corporate governance rules. Bank of Georgia is not subject to, and will not comply with, the UK combined code on corporate governance issued by the Financial Reporting Council in July 2003. Bank of Georgia has appointed three independent non-executive directors.

Interested/Related Party and Major Transactions

The Georgian Securities Act regulates interested party transactions and sets various approval and transparency requirements. These requirements (except the requirements to inform the FSA and to publish information) do not apply to transactions concluded between: (i) a company and its 100% owned subsidiary; and (ii) a company and its 100% shareholder. If Bank of Georgia enters into a transaction and a member of its governing body or a holder of 20% or more of its voting shares or his related person has some relation to the other party to this transaction or receives benefit from it, such a person will be regarded as "an interested party" for the purposes of the Georgian Securities Act. Some examples of relation to the other party are: directly or indirectly holding 20% or more in the capital of the legal person or being a member of the governing body of the legal person. The interested party must notify in writing the Supervisory Board or the GMS (depending on the value of the transaction) of his interest in the transaction to be concluded and the relevant body - the Supervisory Board or the GMS shall approve the transaction. The interested party may not vote in relation to the transaction in which he has an interest. Bank of Georgia must provide information on interested party transactions to the FSA and publish information about such transactions (including those concluded with 100% owned subsidiaries and a 100% shareholder) in accordance with the FSA rules. If a transaction has been concluded without observance of the rules described above, a member of the governing body of Bank of Georgia or its shareholder may claim damages and return of the benefit received from such a transaction from an interested party through court proceedings provided that it has been established that Bank of Georgia suffered damages as a result of the interested party transaction and had there been no such interest, the transaction would have been concluded on better terms.

Certain banking regulations further regulate interested/related party transactions of commercial banks. According to NBG Order No. 116, dated 4 May 2001 ("**Order 116**"), Bank of Georgia is not authorised to conduct any operation with any of its administrators, affiliated companies or related persons (as such terms are defined in Order 116), unless such operation is approved by the

Supervisory Board. The definition of "administrator" includes members of the Supervisory Board, the Management Board and Audit Commission, as well as any person, that independently or with any other person(s) is authorised to incur obligations on Bank of Georgia's behalf. Pursuant to Banking Law, the Audit Commission no longer exists and instead an Audit Committee has been introduced, however until relevant changes are made to the Order 116, it is not clear whether these limitations apply to the members of the Audit Committee. No administrator or person related to Bank of Georgia or to the administrator is permitted to participate in any discussion concerning operations with related parties if he/she anticipates any direct or indirect gain from such transaction. In addition, such administrator or person must not influence, in any manner, the decisions of the Supervisory Board related to such operations. A Supervisory Board member who has any interest in a given operation, must present detailed information about his/her interest whilst submitting such issue for Supervisory Board review. Such member of the Supervisory Board is not permitted to participate in the review and decision-making on such issue and his/her participation will not count in determining the quorum of the meeting.

The Banking Law and Order 116 contain various limitations related to provision of loans/services to administrators, controlling persons, affiliated companies or related persons, including a prohibition to issue loans or provide any other banking or financial services to such persons on favourable terms.

Certain major transactions require the approval of the GMS or Supervisory Board.

Among transactions to be approved by the GMS are:

- merger, division or transformation of Bank of Georgia into another legal entity;
- approval or rejection of Supervisory Board and Management Board proposals regarding the distribution of profits, or if these bodies cannot provide a joint proposal, making a decision about the use of profits;
- increase/reduction of the share capital and full or partial exclusion of the pre-emptive rights of shareholders;
- acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of Bank of Georgia's assets, the value of which is more than 25% of the equity value of Bank of Georgia.

Certain transactions may be carried out only with the approval of the Supervisory Board, including:

- acquisition and disposal of Bank of Georgia's stake in other companies if the amount of such stake/shares exceeds 50% of the total equity of such company or the volume of the transaction exceeds 2.5% (two and a half percent) of Bank of Georgia's equity value as of the end of the previous calendar month;
- acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of Bank of Georgia and the volume of such transaction exceeds 2.5% (two and a half percent) of Bank of Georgia's equity value as of the end of the previous calendar month;
- investments, partial or total amount of which exceeds 2.5% (two and a half percent) of Bank of Georgia's equity value as of the end of the previous calendar month;
- borrowing funds in excess of 2.5% (two and a half percent) of Bank of Georgia's equity value as of the end of the previous calendar month;
- procuring debt financing, if such financing falls outside the scope of routine economic activity;
- approval of agreements or contracts pursuant to which non-recurring expense or several-tranche expenditure of Bank of Georgia exceeds 1% (one percent) of Bank of Georgia's equity value as of the end of the previous calendar month;

- determination and approval of the minimal and maximal interest rates to be used on credits and deposits;
- redemption of Bank of Georgia's shares in cases envisaged by the applicable laws or effected through share buy backs.

For a more detailed description, see "Management and Employees—General Meeting of Shareholders" and "Management and Employees—Supervisory Board".

Georgian Squeeze-Out Proceedings

According to article 53^4 of the Law on Entrepreneurs, a shareholder who holds more than 95% of a company's voting shares has the right to buy out the other shareholders at a "fair price" (the "**Squeeze-out**"). The Buyer must apply to the court for the approval of the Squeeze-out, the determination of a fair price and for setting the date of the Squeeze-out.

The court appoints an auditor or brokerage company to determine the fair price of the shares. The auditor or the brokerage company shall compile a Squeeze-out report, which describes the terms of the Squeeze-out, the method used for determining the fair price, and the price determined by using such method.

The court reviews the application regarding Squeeze-out and decides whether to approve the Squeeze-out within one month of admitting the application from the Buyer. The court decision determines the fair price of the shares and the date for the Squeeze-out. In determining the fair price, the court shall take into consideration: (i) the market price of the relevant shares; (ii) possible future profits of the company; (iii) assets and liabilities of the company.

Georgian Mandatory Tender Offer Rules

According to article 53^2 of the Law on Entrepreneurs, if a shareholder acquires more than 50% of the voting shares of a company, it must make a tender offer to buy out all the remaining shares at a "fair price" within 45 days from the moment of such acquisition, or bring the number of shares under its control below the 50% threshold by selling a portion of its shares. According to the Law on Entrepreneurs, the "fair price" is determined by an auditor, or a brokerage company and it shall not be less than the highest price paid by the shareholder (making mandatory tender offer) for the company's shares over the last six months. The auditor or brokerage company shall compile a buy-out report, which describes the conditions of the buy-out, the method used for determining the fair price, and the price determined by using such method.

The mandatory tender offer itself is made in accordance with the Georgian Securities Act and involves: (i) an application to the FSA including the draft tender proposal; (ii) the sending of tender offers to all the other shareholders; (iii) the publication of the tender offer in the newspapers; and (iv) engaging a brokerage company to effect the share transfers. The tender offer is in force for at least two months and during that two-month period, the offeror is prohibited from purchasing the shares of the company. The offeror will not have the right to exercise its votes in respect of those shares exceeding 50% of the total issued share capital at the GMS until completion of the mandatory tender offer.

Prior Approval of Acquisition of a Significant Interest in a Georgian Bank

Pursuant to the Banking Law, if a person intends to acquire shares in a Georgian bank and as a result of this acquisition, the shareholding of such person or its beneficial owner exceeds 10%, 25% or 50% of the share capital of the bank, such person must submit a declaration to and obtain a prior approval from the FSA. Generally, the FSA should issue or deny its consent within one month from the date of submission of the declaration, however, if the information provided by the applicant is not satisfactory to the FSA, it may extend this term up to three months. Based on the Banking Law, the

FSA must deny its consent to a person who has been convicted of money laundering, terrorism financing or economic crime.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to the FSA or despite the FSA's refusal, is deemed to be null and void.

If there are grounds for suspicion, the FSA may request from a bank submission of a declaration about the direct or indirect beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the FSA is entitled to suspend temporarily or indefinitely the voting rights of the relevant person or request that such person reduces its shareholdings to 10%. See "Risk Factors—Risks Relating to the GDRs—Prior Approval of Acquisition of Significant Interest in Bank of Georgia".

Reporting Obligations Related to Significant Ownership of Shares or GDRs

Holders of Shares or GDRs may be subject to reporting obligations under the Banking Law and the Georgian Securities Act.

According to the Banking Law, any person that directly or indirectly beneficially owns more than 10% of shares of Bank of Georgia must submit a declaration to the FSA in April of each calendar year based on the amount of his shareholdings as of 31 December of the preceding calendar year.

According to the Georgian Securities Act, any person (natural or legal), related persons or a group of persons (as such terms are defined in the Georgian Securities Act) who acquire more than 10 percent of the voting rights in Bank of Georgia, or otherwise obtain control of the bank, must give written notice to Bank of Georgia, the FSA and the stock exchange where the securities are traded. The notice must be given within 15 days of the acquisition of shares/obtaining control (unless the FSA sets shorter time limit for such reporting in the future). In addition, pursuant to regulation No. 9 (dated 19 March 2001) of the former regulator of the securities market, which formally is still in force, any person who, directly or indirectly, acquires or disposes of 5 percent of the voting rights in Bank of Georgia must also give written notice. However, since the underlying law, Georgian Securities Act, has increased this threshold to 10 percent, in practice, the FSA applies this higher threshold.

A member of the Management Board or the Supervisory Board of Bank of Georgia must notify the FSA and the stock exchange where the securities of Bank of Georgia are traded, of the percentage amount of beneficially owned securities of Bank of Georgia within 10 days after: (i) a person became a member of the Management Board/Supervisory Board of Bank of Georgia; or (ii) acquisition of securities of Bank of Georgia. In addition, pursuant to regulation No. 7 (dated 7 August 2000) of the former regulator of the securities market, which formally is still in force, such notification by members of the Management Board/Supervisory Board should be made in relation to each change in the number of securities they hold in Bank of Georgia.

Non-compliance with the reporting obligations under the Georgian Securities Act and the Banking Law could lead to administrative fines and civil sanctions, including a suspension of voting rights in respect of the shares at the next GMS or indefinitely. The FSA may also request the relevant person to reduce its shareholding to 10%. See "Risk Factors—Risks Relating to the GDRs—Reporting Obligations of Holders of Shares and GDRs".

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are each issued in respect of one ordinary share of par value GEL 1.00 each (the "**Shares**") in Joint Stock Company Bank of Georgia (the "**Company**") pursuant to and subject to an agreement dated 24 November 2006, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the "**Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the "**Custodian**") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Georgia as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17 (*Agents*)) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Subject to Condition 1.8, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Georgia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B (*Certificate and Agreement of Persons Receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs pursuant to Condition 1 of the GDRs and Clause 3.5 of the Deposit Agreement*), to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over- allotments) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B (*Certificate and Agreement of Person Receiving Deposited Property upon withdrawal in relation to the Rule 144A GDRs pursuant to Condition 1 and Clause 3.5 of the Deposit Agreement*), to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Georgia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, excerpts of the records of the Independent Registrar, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto (including without limitation, the obligation of the surrendering Holder to obtain all required consents and approval under the applicable laws of Georgia).

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A (*Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement *(which is described in the following paragraph)* by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A (*Certificate and Agreement of Acquirors of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement *(which is described in the second following paragraph)* by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")), is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4, which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from rights attaching to the Shares represented by the outstanding GDRs or (ii) are otherwise not fungible with the outstanding GDRs, will be represented by a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by the Master Regulation S GDR and/or the Master Rule 144A GDR, as the case may be (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4, Part A (*Certificate and Agreement of Acquirors of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A (*Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement.

1.8 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell or cause the Custodian to sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Georgian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Georgian law or regulation in a material respect, as determined by the Depositary at its sole discretion or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or licence to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of non-material or a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Georgian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells (or causes the Custodian to sell) Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Condition in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Condition in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

1.9 The Company may from time to time request Holders to provide information (a) as to the capacity in which such Holders or beneficial owners own or owned GDRs, (b) regarding the identity of any other persons then or previously interested in such GDRs and (c) regarding the nature of such interest and various other matters pursuant to applicable law or the constitutional documents of the Company, all as if such GDRs were to the extent practicable the underlying Shares. Each Holder and beneficial owner agrees to provide promptly any information as required and requested by the Company or the Depositary. At the Company's written instructions the Depositary will distribute any such requests to Holders and return to the Company any responses to such requests received by the Depositary. In addition, Holders and beneficial owners shall be responsible for compliance with restrictions on the ownership of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular Holders and beneficial owners shall be responsible for ensuring that they do not own Shares, or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising 10 per cent. or more of the issued share capital of the Company at any time without the prior written approval of the National Bank of Georgia (or any successor authority from time to time) and shall notify the Company upon receipt of such approval.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by applicable law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"). Prior to expiration of the Distribution Compliance Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "**QIB**") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert or cause to convert the same into United States dollars in accordance with Condition 8 (*Conversion of Foreign Currency*). The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23 (*Notices*), specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute or cause to distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 (*Distribution of any Payments*) and 11 (*Withholding Taxes and Applicable Laws*); PROVIDED THAT:-

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute or cause to distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell or cause to sell such Shares so received and distribute or cause to distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal or cause to deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23 (*Notices*), of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights, after consultation with the Company, where reasonably practicable to do so, in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Lari or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute or cause to distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell or cause to sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute or cause to distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Lari or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Georgian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute or cause to distribute such securities or other property to the Holders or sell or cause to sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgment of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgment any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute or cause to distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make arrangements for such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute or cause to distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23 (*Notices*), in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8 (*Conversion of Foreign Currency*)) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the

Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*) and 9 (*Distribution of any Payments*) with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Georgian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Georgia in order for the Depositary (or its agents) to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*) or 10 (*Capital Reorganisation*) or to be subscribed under Condition 7 (*Rights Issues*) or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders (or if the relevant law requires applying or filing by the Holders, the Company will assist the Holders to apply or file, as the case may be) within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute or cause to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make or cause to make any offer of any such rights or sell or cause to sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report. In the event that the Company requests the Depositary to assist with obtaining such authorisation, consent, registration or permit, or the filing of such report, the

Depositary agrees to consult with the Company as to whether it is able to provide this assistance.

12. Voting Rights

12.1 Subject to Condition 1.8 and Condition 1.9, Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with any applicable Georgian law. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor and request the Depositary in writing to prepare, in consultation with the Company, written proxy forms by which the Depositary will determine pursuant to this Condition 12.1 if a Holder will be permitted to give instructions to the Depositary to vote or cause to vote for or against each and any resolution specified in the agenda for the meeting (the "**Voting Instruction**"), and which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23 (*Notices*).

By holding the GDRs, each Holder is deemed to acknowledge and agree to comply with restrictions on the ownership of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular that no person may own Shares and/or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising (a) (i) more than 10 per cent., (ii) more than 25 per cent., and/or (iii) more than 50 per cent. of the issued share capital or voting rights of the Company (each of such percentage thresholds hereinafter being referred to as a "**Significant Interest**"), and (b) acquire directly or indirectly, through a transaction or series of transactions the Shares or GDRs or a combination of the foregoing, comprising (i) more than 10 per cent., (ii) more than 25 per cent., and/or (iii) more than 50 per cent. of the issued share capital or voting rights of the Company (acquisition of each of such percentage thresholds hereinafter being referred to as a "**Significant Acquisition**") at any time without the prior written approval of the Financial Supervisory Agency of Georgia (or any successor authority from time to time).

Accordingly, each Holder will be required to certify in a Voting Instruction that:

(i) it directly or indirectly owns Shares, or has the ability to exercise voting rights in respect of, Shares or Shares represented by GDRs or a combination of the foregoing, comprising less than a Significant Interest in the issued share capital of the Company, and in which case, the Depositary will exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction and the other provisions of this Condition 12.1; or

(ii) it directly or indirectly owns Shares, or has the ability to exercise voting rights in respect of, Shares or Shares represented by GDRs or a combination of the foregoing, comprising a Significant Interest, or Significant Acquisition of, in the issued share capital of the Company, and in which case, it will also be required to: (a) disclose the identity of the ultimate beneficial owner(s) of the GDRs held by such Holder; and (b) certify that it has obtained all required consents and approval under the applicable laws of Georgia for a Significant Acquisition, and thereupon the Depositary will exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction and the other provisions of this Condition 12.1,

PROVIDED that if no such certification is provided to the Depositary by a Holder (the "**Uncertified Holder**") with respect to any or all of the Deposited Shares represented by such Uncertified Holder's GDRs on or before the record date specified by the Depositary, such Uncertified Holder's Voting Instruction, if any, shall be deemed invalid and disregarded and such Uncertified Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, PROVIDED FURTHER THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary or its nominee to appoint or procure the appointment of a representative to attend the relevant meeting and vote on behalf of the Depositary.

In addition to the above requirements of Georgian law and any other notification requirements applicable under Georgian law, any Holder (other than DTC or its nominee, Cede & Co.) or beneficial owner of GDRs, alone or with any Related Person(s) which intends, directly or indirectly, to (i) increase its holding through acquisition directly through its ownership of Shares or indirectly through its ownership of GDRs or otherwise (including acquisition or control through its subsidiaries), to a Significant Interest or (ii) make a Significant Acquisition, shall provide sufficient written notification (the form of which may from time to time be prescribed by the Financial Supervisory Agency of Georgia) of such fact to the Financial Supervisory Agency of Georgia, with a copy of such notice to the Company and the Depositary. Such Holder or beneficial owner of GDRs shall not make any such increase to a Significant Interest or Significant Acquisition unless and until the Financial Supervisory Agency of Georgia approves the acquisition of such securities.

In addition to the foregoing, each Holder and beneficial owner of GDRs will disclose in writing to the Georgian Stock Exchange any acquisition or disposal by such Holder or beneficial owner of GDRs of more than 10 per cent. of the issued share capital of the Company within 15 days following the completion of any such acquisition or disposal.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Georgian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Georgian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Georgian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote or cause to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chief Executive Officer of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Georgian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary or its nominee will not be deemed to be exercising voting discretion.

12.8 The Depositary is entitled to amend this Condition 12 and Clause 5 of the Deposit Agreement from time to time by written notice to the Company and the GDR Holders (and subject to the approval of (i) the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in Georgia, if required) where the Depositary considers it necessary to do so in order to comply with applicable Georgian law. By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Georgian law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

12.10 Each Holder and beneficial owner of GDRs will disclose in writing to the Financial Supervisory Authority of Georgia, with a copy of such notice to the Company and the Depositary, details of any Person (which shall, for the avoidance of doubt, include the Holder and any beneficial owner of GDRs) owning GDRs, directly or indirectly, alone or with any Related Person(s) which, when aggregated with any other GDRs or Shares held by or on behalf of such a Person and each of its Related Persons would constitute a Significant Interest in the issued share capital of the Company. Such notification (the form of which may from time to time be prescribed by the Financial Supervisory Agency of Georgia any applicable Georgian law, rule or regulation) shall be made as of 31 December of the preceding calendar year, and in writing addressed to the Financial Supervisory Authority of Georgia, with a copy of such notice to the Company and the Depositary, on or before 30 April of each calendar year, commencing in 2009.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary and/or the Custodian shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary and/or Custodian, as the case may be at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell or cause to sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16 (*Depositary's Fees, Costs and Expenses*), and subsequently pay or cause to pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23 (*Notices*).

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Georgia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs (i) by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement, or (ii) for the inability of a Holder or owner of GDRs, or any other person, to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Shares which is not under the terms of this Deposit Agreement or the Conditions made available to Holders. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*), 10 (*Capital Reorganisation*), 13 (*Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary*) or 21 (*Termination of Deposit Agreement*) or any such conversion as is referred to in Condition 8 (*Conversion of Foreign Currency*) in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22 (*Amendment of Deposit Agreement and Conditions*), be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.3 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary (subject to Condition 14.3 below) shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under this Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Georgian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3 (*Transfer and Ownership*), the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(vii) a fee of U.S.$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, provided that no fee has been payable by a Holder pursuant to paragraph (iv) above in any such calendar year; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders and the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "**Official List**") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the

Deposit Agreement to use all reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Georgia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Georgia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23 (*Notices*). Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use a reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23 (*Notices*).

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 Notwithstanding any other provisions of the Conditions or the Deposit Agreement, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders terminate the Deposit Agreement, if (i) the Depositary or its agent receives any notice from any Georgian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Georgian law or regulation in a material respect, as determined by the Depositary at its sole discretion, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or licence to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a non-material routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Georgian counsel that the Depositary (or the Custodian or any of their respective nominees) could reasonably be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property.

21.4 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), delivery of the Deposited Property relative to each GDR held by it upon surrender thereof and payment by the Holder of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Notwithstanding the foregoing, if any laws, rules or regulations under Georgian law require immediate amendment or supplement to the Deposit Agreement or the Conditions, the Company and the Depositary may amend or supplement the Deposit Agreement and Conditions as required, subject to provision of notice to GDR Holders of such amendments as soon as reasonably practicable. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1(*Withdrawal of Deposited Property and Further Issues of GDRs*), the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address, telex or facsimile number of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

(i) in respect of the financial year ending on 31 December 2006 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with IFRS and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, by the Company, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it or its agents by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its clients and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Georgian law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

DEPOSITARY
The Bank of New York Mellon
101 Barclay Street
22nd Floor
New York
New York 10286

CUSTODIAN

BNY (Nominees) Limited
One Canada Square
London E14 5AL

and/or such other Depositary and/or such other Custodian or Custodians and/or such other or further Agent or Agents and/or specified offices as may from time to time be duly appointed or nominated and notified to the Holders.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Upon issuance, the GDRs were initially evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR was deposited with the Bank of New York Mellon, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited. The Master Rule 144A was registered in the name of Cede & Co as nominee for DTC and is held by The Bank of New York Mellon, London branch, as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the conditions of the GDRs set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Terms and Conditions of the GDRs (the "**Conditions**") shall have the same meaning herein.

The Master GDRs may only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

(i) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) advises the Bank in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder. A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 and 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary (which shall be maintained at all times outside the United Kingdom and Georgia) whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Bank under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Bank. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR. Holders of GDRs will have voting rights as set out in the Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Conditions of the GDRs relating to the surrender of a Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a Rule 144A GDR to the Depositary shall he satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR.

The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee of the common depositary for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC, Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs are governed by and construed in accordance with English law.

INFORMATION RELATING TO THE DEPOSITARY

The Bank of New York Mellon was appointed as Depositary pursuant to the Deposit Agreement.

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

TAXATION

The following summary of material UK and Georgian tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs or Shares.

PROSPECTIVE HOLDERS OF GDRS ARE URGED TO CONSULT HIS, HER OR ITS TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs OR SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

United Kingdom

The following paragraphs are intended as a general guide to current UK tax law and H.M. Revenue & Customs ("HMRC") practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of capital gains, the taxation of dividends paid by the Bank, inheritance tax, stamp duty and stamp duty reserve tax. They relate only to persons who are beneficial owners of the GDRs (the "Holders"). These paragraphs may not relate to certain classes of Holders (such as employees or directors of the Bank or its affiliates, persons who are connected with the Bank, insurance companies, charities, collective investment schemes, pension providers or persons who hold GDRs otherwise than as an investment). These paragraphs assume that the GDRs and the Shares will not be registered in a register kept in the United Kingdom and that the Shares will not be paired with shares issued by a corporate body incorporated in the United Kingdom. These paragraphs do not describe the circumstances in which Holders may benefit from an exemption or relief from taxation. All Holders are recommended to obtain their own taxation advice. In particular, non-UK resident or domiciled Holders are advised to consider the potential impact of any relevant double tax agreements.

Taxation of capital gains

UK residents

A disposal of GDRs by an individual Holder who is resident or ordinarily resident and domiciled in the United Kingdom may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. An individual Holder who, on or after 17 March 1998, ceases to be resident or ordinarily resident in the United Kingdom for a period of less than five years and who disposes of the GDRs during that period of temporary non-residence may be liable to capital gains tax on his or her return to the UK. A disposal of GDRs by an individual Holder who is resident or ordinarily resident in the United Kingdom but not domiciled in the United Kingdom and who makes a claim to be taxed on the remittance basis may only give rise to a chargeable gain for the purposes of capital gains tax if and to the extent that amounts in respect of that chargeable gain are treated as received in the United Kingdom.

A disposal of GDRs by a corporate Holder which is resident in the United Kingdom may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax.

Non-UK residents

An individual Holder who is not resident or ordinarily resident in the United Kingdom will generally not be liable for capital gains tax on capital gains realised on the disposal of his or her GDRs unless that Holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom and the GDRs were acquired, used in or for the purposes of the branch or agency or used in or for the purposes of the trade, profession or vocation carried on by the Holder through the branch or agency.

A corporate Holder which is not resident in the United Kingdom will not be liable for corporation tax on capital gains realised on the disposal of its GDRs unless it carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom and the GDRs were acquired, used in or for the purposes of the establishment or used in or for the purposes of the trade carried on by the Holder through the establishment.

Taxation of dividends

UK residents

An individual Holder who is resident or ordinarily resident and domiciled in the United Kingdom may be subject to income tax on dividends received from the Bank. Those individual Holders who are liable to income tax may be entitled to credit relief for any Georgian dividend withholding tax imposed at the appropriate rate. An individual Holder who is resident in the United Kingdom but not ordinarily resident or domiciled in the United Kingdom may, on making a claim to HMRC in respect of a tax year to be taxed on the remittance basis, only be subject to income tax in respect of dividends paid by the Bank if and to the extent that amounts in respect of that dividend are treated as received in the United Kingdom.

A corporate Holder which is resident in the United Kingdom will be subject to corporation tax on dividends paid by the Bank, but may be entitled to credit relief for any Georgian dividend withholding tax imposed at the appropriate rate. However, unless it elects otherwise, a corporate Holder which is resident in the United Kingdom should be exempt from corporation tax on dividends paid by the Bank on or after 1 July 2009. In that event, unless the corporate Holder elects to treat the dividend as not exempt from United Kingdom corporation tax, it will not be entitled to credit relief in the United Kingdom in respect of any Georgian withholding tax imposed on the dividend.

Non-UK residents

An individual Holder who is not resident or ordinarily resident in the United Kingdom will not be subject to income tax on dividends paid by the Bank.

A corporate Holder who is not resident in the United Kingdom will not be subject to corporation tax on dividends paid by the Bank, unless the corporate Holder carries on a trade through a UK permanent establishment and the dividends are regarded as trading income attributable to that permanent establishment.

Inheritance tax

UK domiciliaries

If an individual Holder is regarded as domiciled in the United Kingdom for inheritance tax purposes, inheritance tax may be payable in respect of the GDRs on the death of the Holder or on any gifts of the GDRs during the Holder's lifetime that qualify as a chargeable lifetime transfer of value.

Non-UK domiciliaries

If an individual Holder is regarded as domiciled outside of the United Kingdom for inheritance tax purposes, inheritance tax will not be payable in respect of the GDRs on the death of the Holder or on any gift of the GDRs during the Holder's lifetime on assumption that the GDRs and the Shares will not be registered in a register kept in the United Kingdom.

Stamp duty and stamp duty reserve tax

No stamp duty reserve tax will be payable on the issue or transfer of the Shares or the GDRs on the assumption that the Shares and the GDRs will not be registered in a register kept in the United Kingdom and that the Shares will not be paired with shares issued by a body corporate incorporated in the United Kingdom.

No stamp duty will be payable on the issue of the Shares. No stamp duty will be payable on a transfer of the Shares or the GDRs provided that the instrument of transfer is executed outside of the United Kingdom and does not relate to any property situated in the United Kingdom or to any matter or thing done or to be done in the United Kingdom.

Georgia

The following is a general description of certain Georgian tax considerations relating to the Bank's business and of the ownership of GDRs. It does not purport to be a complete analysis of all relevant tax considerations, whether in Georgia or elsewhere. Prospective investors should consult their own tax advisers as to which countries' tax laws could be relevant to their acquiring, holding and disposing of the GDRs and receiving any dividends and consequences of such actions under the tax laws of those countries. The descriptions of the Georgian tax laws and practices set forth below are based on the statutes, regulations, rulings, judicial decisions and other authorities in force and applied in practice as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect) and differing interpretations.

Corporate profit tax

Entities conducting activities in Georgia are subject to corporate profit tax. Georgian entities, which are entities incorporated or managed in Georgia, are required to pay corporate profit tax on their worldwide income, whereas foreign entities are required to pay corporate profit tax on Georgian-source income only. Taxable profit of Georgian entities, as well as of foreign entities operating in Georgia through their permanent establishments, is the difference between taxable income and tax-deductible expenses. Corporate profit tax rate applied to taxable profit is flat and equals 15%. A permanent establishment is defined as any permanent location in Georgia and generally includes any entity or natural person through which a foreign entity conducts its business activities in Georgia. Domestic tax law and double tax treaties list activities that do not result in a taxable permanent establishment.

Foreign entities earning Georgian-source income (including dividends and interest income) without a permanent establishment in Georgia are subject to withholding tax on this income at the source of payment (i.e. by the company paying income) at a rate ranging from 4% to 10%, depending on the type of revenue received. Certain relief on non-resident income withholding tax may be available pursuant to the applicable double taxation treaties, if any.

Georgian withholding tax on dividends

A 5% withholding tax is imposed on dividends paid to natural persons and foreign entities, that is subject to certain relief that may be available pursuant to the applicable double taxation treaties, if any. Dividends paid to Georgian entities are not subject to withholding tax and are not included in the taxable profit of the recipient as well as dividends received from the shares of an international financial company (a company certified by the relevant body of the Ministry of Finance that derives no more than 10% of its gross taxable income from Georgian sources) and dividends received from publicly-traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as of the end of the reporting year and the preceding year. However, no clear guidelines are available on how the free float must be determined, including, *inter alia*, whether the GDRs listed on the LSE will be counted towards the free float for Georgian tax purposes. The 5% withholding tax rate on dividends will be further reduced to 3% starting from 1 January 2011 and will become 0% from 1 January 2012.

Georgian withholding tax on interest

A 7.5% withholding tax is imposed on interest payments made by Georgian entities or Georgian permanent establishments of foreign entities provided that the source of interest income is in Georgia. Certain relief on withholding tax on interest income may be available pursuant to the applicable double taxation treaties, if any. Interest paid on loans from resident banks is not subject to withholding tax. Furthermore, the following types of interest income are not included in the taxable income of the recipient and are not subject to withholding tax: (i) interest income received by any person (except licensed financial institutions) from licensed financial institutions; (ii) interest income received from publicly-traded or debt securities admitted to trading on a stock exchange listing with a free float exceeding 25% as of the end of the reporting year and the preceding year. However, no clear guidelines are available on how the free float must be determined, including, *inter alia*, whether the GDRs listed on the LSE will be counted towards the free float for Georgian tax purposes. The 7.5% withholding tax rate on interest will be further reduced to 5% from 1 January 2010 and will become 0% from 1 January 2011.

Georgian tax on capital gains

Georgia has no separate tax on capital gains. Capital gains of resident natural persons as well as Georgian source capital gains of non-resident natural persons arising from the sale of any assets (including securities) are taxable at a flat personal income tax rate of 12% until 1 January 2011. After this date a general rate of 18% will apply, which will be reduced to 15% from 1 January 2012. Capital gains received from the transfer of assets which are not used for economic activity, being in the ownership of a natural person for more than two years, are exempt from personal income tax. Holding securities for the purpose of receiving dividends and/or interest is not considered to be "using these assets for economic activity", therefore any gains received from the transfer of such securities are exempt from personal income tax (presumably, the transfer of any securities after holding them for two years is not considered to be "using these assets for economic activity" either). Furthermore, the capital gains received from the sale of publicly-traded or debt securities admitted to trading on a stock exchange listing with a free float exceeding 25% as of the end of the reporting year and the preceding year are also exempt from personal income tax. However, no clear guidelines are available on how the free float must be determined, including, *inter alia*, whether the GDRs listed on the LSE will be counted towards the free float for Georgian tax purposes. Brokerage companies are required to withhold tax on capital gains at source if the client fails to provide a Georgian tax registration certificate. In order to avoid payment of taxation at source, non-resident private persons are required to register as taxpayers in Georgia and file a personal income tax declaration and pay personal income tax on capital gains before 1 April of the year subsequent to the year in which the gain was generated.

Capital gains of Georgian entities as well as Georgian-source capital gains of foreign entities are taxable similarly to other taxable profit at a flat profit tax rate of 15%. In order to avoid payment of taxation at source, foreign entities are required to register as taxpayers in Georgia and declare and pay corporate profit tax before April 1 of the year subsequent to the year in which the profit or gain was generated.

Certain relief on the taxation of capital gains may be available to both non-resident individuals and companies pursuant to the applicable double taxation treaties, if any.

Property tax

Georgia applies a property tax at a flat rate of up to 1% on the annual average net balance sheet value (calculated in accordance with the provisions of the Tax Code of Georgia) of taxable property, both tangible (except land) and intangible, of Georgian entities as well as Georgian permanent establishments of foreign entities. Property tax rates on land are determined based on the purpose, location and quality of the land. Property tax is a local tax as opposed to state-wide taxes, therefore the exact rates for the tax are fixed by the bodies of local self-government of Georgia.

Value added tax

The Tax Code of Georgia set the value added tax at the rate of 18%. Certain business activities, such as financial services, among others, are exempt from VAT as well as the supply of securities and shares of an enterprise. The Tax Code of Georgia sets forth the mechanism for offsetting input VAT (VAT on purchase and import) against output VAT (VAT on sale) on a monthly basis. Taxable events include a supply or import of goods/services. Companies are required to file a VAT declaration for the reporting month within 15 days after the end of the reporting month and offset input VAT against output VAT and transfer the difference to the state budget. Excess VAT can be reclaimed back or offset against future VAT or current tax liabilities pursuant to the special provisions of Tax Code of Georgia.

Social tax

As of 1 January 2008, the social tax was abolished.

Double taxation treaties

As of the date hereof, Georgia has entered into double taxation treaties with the following countries: Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Czech Republic, Denmark, Estonia, France, Finland, Germany, Greece, Iran, Italy, Kazakhstan, Latvia, Lithuania, The Netherlands, Poland, Romania, Turkmenistan, Ukraine, United Kingdom and Uzbekistan. Georgia has started the process of negotiating or entering into double taxation treaties with a number of other countries, including: Canada, Egypt, India, Israel, Ireland, Japan, Luxembourg, Russia, Spain and Turkey.

Double taxation treaties vary from country to country and, therefore, need to be analysed in light of the specific circumstances of a prospective investor. In general, double taxation treaties provide relief from payment of non-resident income withholding tax (such as on interest payments, for instance), as well as withholding tax on dividends and capital gains in Georgia when the non-resident has invested in the Georgian company in excess of a certain investment threshold, while taxing dividends and capital gains in other cases at lower tax rates compared to the statutory rates.

TRANSFER RESTRICTIONS

Holder of GDRs are advised to consult legal counsel prior to making any resale, pledge or transfer of Shares or GDRs.

Regulation S GDRs

The Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and, accordingly, the Regulation S GDRs may not be offered or sold except in accordance with Regulation S or another exemption from such registration requirements. Terms used in this paragraph that are defined in the Securities Act are used herein as so defined.

The Regulation S Master GDR contains the following legend:

NEITHER THIS GLOBAL REGULATION S GDR, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THE GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS GLOBAL REGULATION S GDR AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF REGULATION S GDRs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, AND (II) THE LAST CLOSING DATE WITH RESPECT TO THE REGULATION S GDRs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS GLOBAL REGULATION S GDR OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS. UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD

NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by Bank of Georgia or the Depositary in respect of the Regulation S Master GDR, the Regulation S GDRs evidenced thereby and the Shares represented thereby.

Rule 144A GDRs

The Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. If a holder of Rule 144A GDRs offers, resells, pledges or otherwise transfers such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, unless otherwise determined by the Bank and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JOINT STOCK COMPANY BANK OF GEORGIA REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JOINT STOCK COMPANY BANK OF GEORGIA THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

Notwithstanding anything to the contrary in the foregoing, the Shares represented by the Rule 144A GDRs may not be deposited into any depositary receipt facility in respect of the Shares established or maintained by a depositary bank (including any such facility maintained by the Depositary for the Rule 144A GDRs), other than a Rule 144A restricted depositary receipt facility, so long as such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links are established between Euroclear, Clearstream and DTC to facilitate cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective clients may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to other persons, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures and the terms of the Deposit Agreement.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States Federal Income Taxation".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for the Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York Mellon as custodian for DTC.

As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and clients having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Bank for holders holding through Euroclear or Clearstream, and Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Bank for holders holding through DTC are received by DTC.

The Bank will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

Global Clearance and Settlement Procedures

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see "Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Bank, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INDEPENDENT AUDITORS

The Financial Statements of the Bank prepared in accordance with IFRS as of and for the years ended 31 December 2008, 2007 and 2006, included elsewhere in this Prospectus, have been audited in accordance with International Standards on Auditing by E&Y.

The business address of E&Y is 44 Kote Abkhazi Street, Tbilisi, Georgia, 0105.

E&Y is registered to carry out audit work by the Audit Activity Committee of Parliament.

GENERAL INFORMATION

1. Bank of Georgia has obtained all consents, approvals and authorisations in connection with its applications to (i) the UK FSA for a block listing to be admitted to the official list of the Official List and (ii) to the LSE for the GDRs to be admitted to trading on the LSE's Regulated Market.

2. Except as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," on page 34, there has been no significant change in the financial or trading position of the Bank since 31 December 2008.

3. E&Y has given and has not withdrawn its written consent to the inclusion in this Prospectus of its report and references to it in the form and context in which they appear and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

4. For the purposes of Prospectus Rule 5.5.4R(2)(f), E&Y are responsible for the Independent Auditors' Report within the Financial Statements as part of the Prospectus and declare that they have taken all reasonable care to ensure that the information contained in the Independent Auditors' Report within the Financial Statements is, to the best of E&Y's knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex X of the Prospectus Directive Regulation.

INDEX TO FINANCIAL STATEMENTS

JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

Years ended 31 December 2008, 2007 and 2006
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Bank of Georgia –

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and Subsidiaries which comprise the consolidated balance sheets as at 31 December 2008, 2007 and 2006 and the related consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JSC Bank of Georgia and Subsidiaries as at 31 December 2008, 2007 and 2006 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

31 March 2009

CONSOLIDATED BALANCE SHEETS

As at 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

	Notes	*2008*	*2007*	*2006*
Assets				
Cash and cash equivalents	7	397,591	405,770	108,045
Amounts due from credit institutions	8	99,633	154,560	65,475
Loans to customers	9	2,039,022	1,675,681	684,842
Finance lease receivables	10	41,605	46,674	9,091
Investment securities:				
- available–for-sale	11	33,737	42,387	9,887
- held–to-maturity	11	22,845	192,464	187,244
Investments in associates	12	16,716	5,208	496
Investment properties	13	47,289	35,065	1,224
Property and equipment	14	301,784	204,656	66,828
Goodwill and other intangible assets	15	152,459	115,989	43,429
Current and deferred income tax assets	16	12,786	1,557	–
Prepayments		18,319	5,942	3,476
Other assets	18	75,121	67,658	33,289
Total assets		**3,258,907**	**2,953,611**	**1,213,326**
Liabilities				
Amounts due to credit institutions	19	1,216,722	901,795	224,381
Amounts due to customers	20	1,193,124	1,355,476	559,646
Current and deferred income tax liabilities	16	24,394	37,209	8,138
Provisions	17,22	4,263	1,003	672
Other liabilities	18	101,555	100,137	45,631
Total liabilities		**2,540,058**	**2,395,620**	**838,468**
Equity	21			
Share capital		31,253	27,155	25,202
Additional paid-in capital		468,732	315,415	277,440
Treasury shares		(2,018)	(1,737)	(1,004)
Other reserves		26,201	67,354	5,257
Retained earnings		141,491	136,342	63,746
Total equity attributable to shareholders of the Bank		**665,659**	**544,529**	**370,641**
Minority interests		53,190	13,462	4,217
Total equity		**718,849**	**557,991**	**374,858**
Total liabilities and equity		**3,258,907**	**2,953,611**	**1,213,326**

Signed and authorised for release on behalf of the Management Board of the Bank

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

31 March 2009

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENTS

For the years ended 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

	Notes	2008	2007	2006
Interest income				
Loans to customers		363,013	203,759	92,612
Investment securities - held-to-maturity		16,457	23,394	414
Amounts due from credit institutions		10,732	9,942	5,310
Finance lease receivables		7,010	4,136	1,143
Investment securities – available-for-sale		6,727	1,073	792
		403,939	**242,304**	**100,271**
Interest expense				
Amounts due to credit institutions		(97,035)	(58,072)	(14,128)
Amounts due to customers		(85,358)	(53,419)	(19,245)
Debt securities issued		(706)	(594)	(176)
		(183,099)	**(112,085)**	**(33,549)**
Net interest income before impairment charge on interest-earning assets		**220,840**	**130,219**	**66,722**
Impairment charge on loans to customers	9	(122,812)	(17,409)	(13,766)
Impairment charge on finance lease receivables	10	(1,335)	(708)	(64)
Net interest income after impairment charge		**96,693**	**112,102**	**52,892**
Fee and commission income		63,503	48,358	28,139
Fee and commission expense		(13,534)	(6,610)	(3,453)
Net fee and commission income	23	**49,969**	**41,748**	**24,686**
Net (losses) gains from for trading securities		(5,447)	2,930	–
Net gains from investment securities available-for-sale	21	513	2,481	–
Net (losses) gains from revaluation of investment properties	13	(389)	16,362	–
Net gains (losses) from foreign currencies:				
- dealing		39,443	22,395	12,049
- translation differences		7,691	4,315	(107)
Net insurance premiums earned	24	35,911	14,260	6,260
Share of (loss) profit of associates	12	(713)	137	–
Other operating income		14,747	9,766	4,222
Other non-interest income		**91,756**	**72,646**	**22,424**
Salaries and other employee benefits	25	(108,767)	(75,639)	(33,316)
General and administrative expenses	25	(68,649)	(36,164)	(20,649)
Depreciation, amortization and impairment	14, 15	(20,532)	(9,863)	(5,887)
Net insurance claims incurred	24	(26,895)	(8,799)	(1,827)
Impairment (charge) reversal on other assets and provisions	17	(4,551)	365	170
Other operating expenses		(9,828)	(6,684)	(3,590)
Other non-interest expenses		**(239,222)**	**(136,784)**	**(65,099)**
(Loss) profit before income tax benefit (expense)		(804)	**89,712**	**34,903**
Income tax benefit (expense)	16	978	(14,070)	(8,131)
Profit for the year		**174**	**75,642**	**26,772**
Attributable to:				
- shareholders of the Bank		3,897	72,484	26,983
- minority interests		(3,723)	3,158	(211)
		174	**75,642**	**26,772**

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS

For the years ended 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

Earnings per share:	21			
- basic earnings per share		0.129	2.958	1.622
- diluted earnings per share		0.129	2.947	1.445

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Minority interests*	*Total equity*
31 December 2005	**14,729**	**32,922**	**(81)**	**5,369**	**37,427**	**90,366**	**1,096**	**91,462**
Increase in share capital arising from share-based payments (Note 21)	175	2,343	68	–	–	2,586	–	2,586
Depreciation of revaluation reserve, net of tax	–	–	–	(112)	112	–	–	–
Total income and expenses recognised directly in equity	**175**	**2,343**	**68**	**(112)**	**112**	**2,586**	–	**2,586**
2006 profit (loss)	–	–	–	–	26,983	26,983	(211)	26,772
Total income and expenses for the year	**175**	**2,343**	**68**	**(112)**	**27,095**	**29,569**	**(211)**	**29,358**
Increase in share capital (Note 21)	10,298	249,571	–	–	–	259,869	–	259,869
Share offering costs recognised directly in equity	–	(5,040)	–	–	–	(5,040)	–	(5,040)
Dividends to shareholders of the Bank (Note 21)	–	–	–	–	(776)	(776)	–	(776)
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	3,454	3,454
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(122)	(122)
Purchase of treasury shares	–	(2,356)	(991)	–	–	(3,347)	–	(3,347)
31 December 2006	**25,202**	**277,440**	**(1,004)**	**5,257**	**63,746**	**370,641**	**4,217**	**374,858**
Net change in investment securities available-for-sale, net of tax	–	–	–	859	–	859	–	859
Revaluation of property and equipment and investment properties, net of tax	–	–	–	59,295	–	59,295	964	60,259
Increase in share capital arising from share-based payments (Note 21)	146	948	–	–	–	1,094	–	1,094
Depreciation of revaluation reserve, net of tax	–	–	–	(112)	112	–	–	–
Share offering costs adjustment	–	1,321	–	–	–	1,321	–	1,321
Currency translation differences	–	–	–	2,055	–	2,055	–	2,055
Total income and expenses recognised directly in equity	**146**	**2,269**	**–**	**62,097**	**112**	**64,624**	**964**	**65,588**
2007 profit	–	–	–	–	72,484	72,484	3,158	75,642
Total income and expenses for the year	**146**	**2,269**	**–**	**62,097**	**72,596**	**137,108**	**4,122**	**141,230**
Increase in share capital (Note 21)	1,807	37,751	–	–	–	39,558	–	39,558
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	3,494	3,494
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(87)	(87)
Minority interests arising on acquisition of subsidiary	–	–	–	–	–	–	1,716	1,716
Sale of treasury shares	–	9,600	–	–	–	9,600	–	9,600
Purchase of treasury shares	–	(11,645)	(733)	–	–	(12,378)	–	(12,378)
31 December 2007	**27,155**	**315,415**	**(1,737)**	**67,354**	**136,342**	**544,529**	**13,462**	**557,991**
Net change in investment securities available-for-sale, net of tax	–	–	–	(8,670)	–	(8,670)	–	(8,670)
Revaluation of property and equipment, net of tax	–	–	–	(8,796)	–	(8,796)	–	(8,796)
Issuance of shares arising from business combination (Note 21)	89	573	–	–	–	662		662
Increase in share capital arising from share-based payments (Note 21)	9	8,590	341	–	–	8,940	–	8,940
Depreciation of revaluation reserve, net of tax	–	–	–	(1,252)	1,252	–	–	–
Share offering costs adjustment	–	(357)	–	–	–	(357)	–	(357)
Currency translation differences	–	–	–	(22,435)	–	(22,435)	–	(22,435)
Total income and expenses recognised directly in equity	**98**	**8,806**	**341**	**(41,153)**	**1,252**	**(30,656)**	**–**	**(30,656)**
2008 profit (loss)	–	–	–	–	3,897	3,897	(3,723)	174
Total income and expenses for the year	**98**	**8,806**	**341**	**(41,153)**	**5,149**	**(26,759)**	**(3,723)**	**(30,482)**
Increase in share capital from issuance of GDRs (Note 21)	4,000	146,594	–	–	–	150,594	–	150,594
Acquisition of additional interests in existing subsidiaries by minority shareholders	–	–	–	–	–	–	31,278	31,278

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

Minority interests arising on acquisition of subsidiary	–	–	–	–	–	–	12,173	12,173
Sale of treasury shares	–	5,544	256	–	–	5,800	–	5,800
Purchase of treasury shares	–	(7,627)	(878)	–	–	(8,505)	–	(8,505)
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the years ended 31 December 2008, 2007 and 2006

(Thousands of Georgian Lari)

	Notes	2008	2007	2006
Cash flows from operating activities				
Interest received		384,802	234,083	96,231
Interest paid		(173,534)	(88,027)	(28,088)
Fees and commissions received		63,503	48,357	28,139
Fees and commissions paid		(13,534)	(6,608)	(3,453)
Net realized (losses) gains from trading securities		(5,432)	2,764	–
Net realized gains from investments securities		498	2,481	–
Net realized gains from foreign currencies		39,443	22,395	12,046
Recoveries of loans to customers	9	11,176	7,918	3,263
Insurance premiums received		24,262	19,336	3,070
Insurance claims paid		(11,095)	(6,554)	(1,492)
Other operating income received		11,499	9,504	3,877
Salaries and other employee benefits paid		(106,605)	(53,838)	(30,462)
General and administrative and operating expenses paid		(62,174)	(41,298)	(20,984)
Cash flows from operating activities before changes in operating assets and liabilities		**162,809**	**150,513**	**62,147**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		62,312	(82,753)	(28,816)
Loans to customers		(488,574)	(774,471)	(396,543)
Finance lease receivables		3,722	(38,078)	(4,778)
Prepayments and other assets		(3,678)	(17,672)	(10,914)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		339,654	604,576	136,065
Amounts due to customers		(211,774)	537,984	248,982
Other liabilities		(9,813)	2,970	3,774
Net cash flows (used in) from operating activities before income tax		**(145,342)**	**383,069**	**9,917**
Income tax paid		(19,580)	(3,854)	(203)
Net cash (used in) from operating activities		**(164,922)**	**379,215**	**9,714**
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(41,740)	(12,256)	259
Proceeds from sale of investment securities		166,175	–	–
Purchase of investment securities		–	(11,838)	(186,289)
Purchase of investments in associates	12	(13,355)	(5,275)	(496)
Proceeds from sale of investments in associates	12	860	700	–
Purchase of investment properties	13	(12,613)	(10,499)	(1,224)
Purchase of property and equipment and intangible assets	14,15	(122,881)	(74,238)	(30,276)
Net cash used in investing activities		**(23,554)**	**(113,406)**	**(218,026)**
Cash flows from financing activities				
Proceeds from increase in share capital		150,594	38,908	259,770
Purchase of treasury shares		(8,505)	(11,728)	(3,347)
Sale of treasury shares		5,800	9,600	–
Purchase of additional interests by minority shareholders		31,794	3,494	3,454
Purchase of additional interests in existing subsidiaries, net of cash acquired		–	303	–
Proceeds from debt securities issued		–	(9,045)	–
Redemption of debt securities issued		(4,988)	49	(70)
Dividends paid to shareholders of the Bank		–	–	(579)
Net cash from financing activities		**174,695**	**31,581**	**259,228**
Effect of exchange rates changes on cash and cash equivalents		5,602	335	(107)
Net (decrease) increase in cash and cash equivalents		**(8,179)**	**297,725**	**50,809**
Cash and cash equivalents, beginning		**405,770**	**108,045**	**57,236**
Cash and cash equivalents, ending	7	**397,591**	**405,770**	**108,045**

The accompanying notes on pages F-9 to F-81 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia, and was formerly known as State Bank Binsotsbanki. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Ukraine, Belarus, Cyprus, Moldova and Azerbaijan, primary business activities include providing banking, leasing, insurance, brokerage, asset and wealth management services, to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2008 the Bank has 151 operating outlets in all major cities of Georgia (2007: 117, 2006: 100). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

In November and December 2006, 8,880,207 shares of the Bank in the form of Global Depository Receipts ("GDRs") were sold on the London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,440,207 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Each GDR represents 1 ordinary share of the Bank. Bank of New York ("BNY") acts as a depository for these shares.

As of 31 December 2008, 2007 and 2006 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***31 December 2008, %***	***31 December 2007, %***	***31 December 2006, %***
Bank of New York (Nominees), Limited	77.45%	71.38%	43.01%
Firebird Avrora Fund	4.68%	5.39%	5.81%
Firebird Republics Fund	4.58%	5.27%	5.67%
East Capital Financial Institutions	4.37%	5.03%	5.42%
Bank Austria Creditanstalt	–	–	16.53%
Others (less than 4% individually)	8.92%	12.93%	23.56%
Total	**100.00%**	**100.00%**	**100.00%**

As of 31 December 2008, the members of the Supervisory Board and Board of Directors owned 468,827 shares and Global Depositary Receipts ("GDRs") (1.500%) (2007: 214,146 shares and GDRs or 0.787%, 2006: 622,366 shares and GDRs or 2.47%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	***31 December 2008, shares held***	***31 December 2007, shares held***	***31 December 2006, shares held***
Sulkhan Gvalia	166,907	188,050	224,000
Irakli Gilauri	136,303	1,587	–
Nicholas Enukidze	75,377	1,045	–
Ramaz Kukuladze	52,092	23,094	22,122
Avto Namicheishvili	12,489	–	–
Allan Hirst	10,685	–	–
Irakli Burdiladze	10,036	370	–
Kakha Kiknavelidze	4,938	–	
Lado Gurgenidze	–	–	376,244
Total	**468,827**	**214,146**	**622,366**

In addition to shares held, the members of the Supervisory Board and Management Board were awarded 198,139, 244,617 and 185,000 Global Depository Receipts ("GDR") in 2008, 2007 and 2006, respectively. The awards are subject to three-year vesting. As of 31 December 2008 313,330 GDRs owned by the members of the Supervisory Board and Management Board vested and comprised as follows (2007 and 2006: 31,665):

Member of the Supervisory Board and/or Management Board	***31 December 2008, GDRs vested***	***31 December 2007 and 2006, GDRs vested***
Irakli Gilauri	134,716	16,666
Nicholas Enukidze	74,332	–
Ramaz Kukuladze	52,092	1,666
Sulkhan Gvalia	26,857	13,333
Avto Namicheishvili	11,667	–
Irakli Burdiladze	9,666	–
Kakha Kiknavelidze	4,000	–
Total	**313,330**	**31,665**

(Thousands of Georgian Lari)

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with IFRS, while Subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment.

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

Subsidiaries

The consolidated financial statements as of 31 December 2008, 2007 and 2006 include the following direct and indirect subsidiaries:

	Ownership / voting, %						
Subsidiaries	*December 31, 2008*	*December 31, 2007*	*December 31, 2006*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
JSC BG Bank (formerly known as United Bank of Development and Partnership)	99.4%	98.8%	-	Ukraine	Banking	26/01/1994	01/10/2007
Valimed, LLC	100.0%	-	-	Belarus	Investment	14/09/2000	03/06/2008
⇒ JSC Belarusky Narodny Bank	70.0%	-	-	Belarus	Banking	16/04/1992	03/06/2008
⇒ BNB Leasing, LLC	76.0%	-	-	Belarus	Leasing	30/03/2006	03/06/2008
JSC Galt and Taggart Securities	100.0%	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ JSC Caucasus Energy and Infrastructure	(c)	100.0%	-	Georgia	Investment	07/06/2007	-
⇒ Galt &Taggart Tax Advisory, LLC	100.0%	100.0%	-	Georgia	Tax consulting	25/09/2007	-
⇒ Galt and Taggart Holdings Limited (****)	100.0%	100.0%	100.0%	Cyprus	Investment	03/07/2006	-
⇒ Galt &Taggart Trading Limited	100.0%	100.0%	-	Cyprus	Investment	26/03/2007	-
⇒ JSC Galt and Taggart Securities, SA (Moldova)	95.1%	-	-	Moldova	Investment	07/07/2008	-
⇒ Galt and Taggart Securities (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	-
⇒ Galt and Taggart Securities (Belarus), LLC	100.0%	-	-	Belarus	Brokerage	19/02/2008	-
⇒ Brooksby Investments Limited	100.0%	-	-	Cyprus	Investments	04/03/2008	18/06/2008
⇒ Galt&Taggart Securities MMC, LLC	75.0%	-	-	Azerbaijan	Investment banking and brokerage services	30/06/2008	-
⇒ GTAM Limited	80.0%	80.0%	-	Cyprus	Investment activity	23/10/2007	-
⇒ Galt and Taggart Asset Management, LLC	100.0%	100.0%	-	Georgia	Asset management	31/05/2007	-
⇒ JSC Belorussian Investments	100.0%	-	-	Georgia	Consumer goods production & distribution	14/05/2008	-
⇒ JSC Liberty Financial Opportunities	100.0%	-	-	Georgia	Investment	03/09/2008	-
⇒ JSC Galt and Taggart Holdings	100.0%	-	-	Georgia	Investment	04/11/2008	-

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	Ownership / voting, % 'December 31, 2008	'December 31, 2007	'December 31, 2006	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Liberty Consumer (formerly JSC Galt and Taggart Capital) (**)	65.4%	71.6%	77.0%	Georgia	Investment	24/05/2006	-
⇒ JSC SB Real Estate	52.1%	100.0%	77.0%	Georgia	Real estate	27/09/2006	-
⇒ Vere+, LLC	100.0%	100.0%	-	Georgia	Real estate	22/05/1996	06/02/2007
⇒ Alegro, LLC	100.0%	-	-	Georgia	Commercial	09/09/1996	12/03/2008
⇒ JSC SB Outdoor & Indoor	100.0%	100.0%	77.0%	Georgia	Advertising	09/06/2006	-
⇒ Intertour, LLC	83.6%	83.6%	64.4%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Georgian-American Medical Rehabilitation Center Nautilus LLC (**)	-	(f)	100.0%	Georgia	Fitness centre	05/04/2004	9/03/2006
⇒ Holiday Travel, LLC	100.0%	100.0%	64.4%	Georgia	Travel agency	11/02/2005	04/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	77.0%	Georgia	Fitness centre	03/07/2006	-
⇒ MetroNet, LLC (******)	100.0%	100.0%	-	Georgia	Communication services	23/04/2007	-
⇒ SB Transport, LLC (***)	100.0%	100.0%	-	Georgia	Transportation	20/02/2007	-
⇒ Real Estate Brokerage-Presto, LLC (**)	100.0%	100.0%	-	Georgia	Real estate brokerage	16/11/2007	-
⇒ JSC SB Immobiliare	100.0%	-	-	Georgia	Real estate, Construction	12/03/2008	-
JSC Insurance Company Aldagi BCI (**)	100.0%	100.0%	100.0%	Georgia	Insurance	22/06/2007	-
⇒ JSC My Family Clinic (****)	100.0%	100.0%	60.0%	Georgia	Healthcare	03/10/2005	-
⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	-	-	Georgia	Medical	03/11/2000	20/05/2008
⇒ JSC Insurance Company BCI (*)	-	(e)	100.0%	Georgia	Insurance	30/12/1995	21/12/2006
⇒ JSC Insurance Company Aldagi (****)	-	(e)	100.0%	Georgia	Insurance	11/08/1998	30/12/2004
⇒ Aldagi-Assistance LLC	-	(f)	100.0%	Georgia	Insurance	22/02/2000	21/12/2006
⇒ JSC Insurance Company Europace (****)	-	(f)	100.0%	Georgia	Insurance	09/09/1998	18/10/2005
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	100.0%	100.0%	-	Georgia	Investment	23/04/2007	-
⇒ JSC DBL Capital	100.0%	100.0%	-	Georgia	Brokerage	27/04/2007	-
⇒ Tavazi, LLC	(b)	100.0%	100.0%	Georgia	Brokerage	31/03/2001	20/04/2006
⇒ Hedji, LLC (****)	(b)	100.0%	100.0%	Georgia	Brokerage	22/05/2002	17/04/2006
⇒ Georgian Securities, LLC	(b)	100.0%	-	Georgia	Brokerage	19/06/2000	08/10/2007
⇒ Georgian Brokers Company, LLC (*****)	(b)	100.0%	100.0%	Georgia	Brokerage	23/06/1999	21/12/2006
GC Holdings, LLC (**)	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	-
⇒ GC Ukraine, LLC	100.0%	-	-	Ukraine	Card processing	30/07/2008	-
⇒ JSC Georgian Card (*)	55.7%	55.7%	55.4%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ JSC Nova Technology	51.0%	51.0%	-	Georgia	Electronic payment services	19/03/2007	11/11/2007
⇒ Direct Debit Georgia, LLC (***)	100.0%	100.0%	77.0%	Georgia	Electronic payment services	07/03/2006	-
JSC United Securities Registrar of Georgia	100.0%	-	-	Georgia	Registrar	29/05/2006	-
⇒ United Securities Registrar of Georgia, LLC	(a)	100.0%	100.0%	Georgia	Registrar	25/01/1999	30/09/2006
⇒ JSC SB Reestri	(a)	100.0%	100.0%	Georgia	Registrar	29/05/2006	-
⇒ ICT Delameni LLC	-	(g)	100.0%	Georgia	Registrar	30/03/1999	22/08/2006
⇒ Company Center LLC	-	(g)	100.0%	Georgia	Registrar	21/10/1996	9/08/2006
⇒ Register Center LLC	-	(g)	100.0%	Georgia	Registrar	25/01/1999	30/09/2006
Club 24, LLC (**)	100.0%	100.0%	-	Georgia	Entertainment	27/11/2007	-
JSC SB Trade (***)	100.0%	100.0%	-	Georgia	Import and distribution	26/02/2007	-
Metro Service +, LLC (***)	100.0%	100.0%	81.6%	Georgia	Business servicing	10/05/2006	-
JSC Galt and Taggart Bank	(d)	100.0%	-	Georgia	Banking	30/12/1996	31/05/2007

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries (continued)

(a) United Securities Registrar of Georgia, LLC (subsidiary) merged with JSC SB Reestri (parent) in 2008. Name of JSC SB Reestri was changed to JSC United Securities Registrar of Georgia
(b) Merged with JSC DBL Capital in 2008
(c) No longer Group subsidiary due to sale in 2008
(d) Merged with JSC Bank of Georgia in 2008
(e) The subsidiary merged with JSC Insurance Company Aldagi-BCI in 2007.
(f) The subsidiary is either under liquidation, have been liquidated, or share ownership have been disposed of or sold, and therefore is not consolidated as of 31 December 2007.
(g) The subsidiary merged with JSC United Securities Registrar of Georgia in 2007.
(*) The subsidiary was under JSC Bank of Georgia in 2006.
(**) The subsidiary was under Galt & Taggart Securities in 2006 and (or) 2007.
(***) The subsidiary was under JSC Liberty Consumer, formerly JSC Galt and Taggart Capital in 2006 and (or) 2007.
(****) The subsidiary was under JSC Insurance Company BCI in 2006.
(*****) The subsidiary was under JSC Insurance Company Aldagi in 2006.
(******) The subsidiary was under Metro Service +, LLC in 2007.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS and new IFRIC Interpretations in 2008. The principal effects of these changes are as follows:

Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available-for-sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made.

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;

- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

The Group did not reclassify any financial assets from held for trading or available-for-sale categories and hence these amendments did not have any impact on the financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (Continued)

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Group.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Group.

Reclassifications

The following reclassifications were made to 2006 balances to conform to 2008 and 2007 presentation requirements:

Caption	*As previously reported*	*As reclassified*	*Comment*
Consolidated balance sheet:			
Debt securities issued	1,073	–	Reclassified to Other Liabilities due to immaterial balance
Other liabilities	44,558	45,631	Included Debt Securities Issued
Consolidated income statement:			
Impairment charge on finance lease receivables	–	(64)	Presented separately from Other Operating Expenses to align with the 2008 and2007 presentation
Other operating expenses	(3,654)	(3,590)	Reclassified and shown separately Impairment Charge on Finance Lease Receivables

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (Continued)

Step-up acquisition

For business combination involving exchange transaction in stages by successive phase purchases, each exchange transaction is treated separately by the Bank, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Bank's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases at the date of increase in ownership interests are charged or credited to retained earnings.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with unrealized gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the balance sheet date, without any deduction for transaction costs. For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers or in available-for-sale securities, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Leases

i. Finance - Group as lessor

The Group recognizes finance lease receivables in the consolidated balance sheet at value equal to the net investment in lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating - Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (Continued)

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities (Continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus, Cyprus, Azerbaijan and Moldova also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as "Net (losses) gains from revaluation of investment properties".

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment, except for buildings, are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the devalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

(Thousands of Georgian Lari)

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

The Group's other intangible assets include computer software and licenses. Computer software and licenses are recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

(Thousands of Georgian Lari)

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, environmental and pollution exposures - therefore the ultimate cost of which cannot be known with certainty at the balance sheet date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (Continued)

The cost of equity settled transactions is recognized together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of the Bank's shares) which are treated as vesting irrespective whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

(Thousands of Georgian Lari)

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) or in providing products or services within particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group determines that the primary and secondary segments are business and geographical, respectively.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(Thousands of Georgian Lari)

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognized at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the balance sheet date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include costs incurred in connection with the negotiation and settlement of claims.

3. Summary of Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari ("GEL"), which is the Bank's presentation currency. The Bank's functional currency is US Dollar effective 1 January 2007. Prior to 1 January 2007, Georgian Lari was its functional currency (see "Change in functional currency" below). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in net gains (losses) from foreign currencies (dealing). The official NBG exchange rates at 31 December 2008, 2007 and 2006 were GEL 1.6670, GEL 1.5916 and GEL 1.7135 to USD 1 and GEL 2.3648, GEL 2.3315 and GEL 2.2562 to EUR 1, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on

(Thousands of Georgian Lari)

the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Change in functional currency

Prior to 1 January 2007, the Bank determined that the Georgian Lari ("GEL") was its functional currency as it was the currency of the primary economic environment in which the Bank operated.

In 2007 however, the Bank performed a re-assessment of its functional currency in relation to International Accounting Standard 21 - "Effects of Changes in Foreign Exchange Rates" (IAS 21) due to the following:

- The USD share of the Bank's assets and liabilities was constantly increasing;
- Pricing of the loans is primary based on the cost of funds which are sourced primarily from USD denominated offshore banking borrowings and deposits; at the same time GDRs of the Bank, floated on the London Stock Exchange, are priced and traded in USD.
- After the Bank listed its shares in the form of Global Depositary Rights on the London Stock Exchange in November 2006, communication, planning and execution of business activities of the Bank with shareholders are generally

As a result, the Bank has changed its functional currency from GEL to USD starting 1 January 2007.

In accordance with IAS 21 - "The Effects of Changes in Foreign Exchange Rates", the change in the functional currency was accounted for prospectively from 1 January 2007. In these consolidated financial statements assets and liabilities in the comparative balance sheet as at 31 December 2006, were translated to the USD using the exchange rate as at 31 December 2006, equal to GEL 1.714/USD 1. The consolidated income statement for the year ended 31 December 2007 was translated to GEL using the average exchange rate for 2007, of GEL 1.692/USD 1, and the consolidated balance sheet as at 31 December 2007 were translated to the USD using the exchange rate as at 31 December 2007 of GEL 1.5916/USD 1. Any differences arising from translation is included in a separate component of equity. Upon the change in the functional currency all equity components were retranslated at the exchange rate as at 1 January 2007.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

Up to the date of approval of these consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

(Thousands of Georgian Lari)

IAS 23 "Borrowing Costs"(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Group.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group's financial statements as the Bank Group has not entered into any such hedges.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Group.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008).

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 8 "Operating Segments"

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard will not have any impact on the financial position or performance of the Group. The Group determined that the operating segments would be the same as the business segments previously identified under IAS 14 'Segment Reporting".

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

(Thousands of Georgian Lari)

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Group expects that this interpretation will have no impact on the Group's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group expects that this interpretation will have no impact on the Group's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that his interpretation will have no impact on the Group's financial statements.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. The Group expects that his interpretation will have no impact on the Group's financial statements.

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Group expects that his interpretation will have no impact on the Group's financial statements.

4. Significant Accounting Estimates

Estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below:

(Thousands of Georgian Lari)

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 31 December 2008, 2007 and 2006 the Group did not record any contingent liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

4. Significant Accounting Estimates

Estimation uncertainty (Continued)

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

5. Business Combinations

JSC Belarusky Narodny Bank

On 1 July 2008 the Bank acquired 70% of JSC "JSC Belarusky Narodny Bank", a banking institution operating in Belarus, through Valimed LLC. The fair values of identifiable assets, liabilities and contingent liabilities of JSC Belarusky Narodny Bank as of the date of acquisition were provisionally estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	8,908	8,908
Due from credit institutions	1,022	1,022
Loans to customers	36,234	36,234
Deferred tax asset	297	297
Property and equipment	17,445	17,445

(Thousands of Georgian Lari)

All other assets	520	520
	64,426	**64,426**
Amounts due to credit institutions	9,501	9,501
Amounts due to customers	18,231	18,231
All other liabilities	513	513
	28,245	**28,245**
Fair value of net assets	**36,181**	**36,181**
Share in fair value of net assets acquired (70%)	25,327	
Recognized Core Deposit Intangible	843	
Goodwill arising on acquisition	23,394	
Consideration paid	**49,564**	

The net cash outflow on acquisition was as follows:

	2008
Cash paid	49,564
Cash acquired with the subsidiary	(8,908)
Net cash outflow	**40,656**

5. Business Combinations (continued)

JSC Belarusky Narodny Bank (continued)

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 1,887 and the total revenue would have been GEL 367,820.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

JSC Kutaisi St. Nickolas Surgery Clinic

On 31 May 2008 JSC Insurance Company Aldagi BCI, a fully owned subsidiary of the Bank, acquired 55% of JSC "Kutaisi St. Nickolas Surgery Clinic". The fair values of identifiable assets, liabilities and contingent liabilities of JSC "Kutaisi St. Nickolas Surgery Clinic" as of the date of acquisition were provisionally estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	7	7
Property and equipment	2,802	2,802
All other assets	223	223
	3,032	**3,032**
Amounts due to credit institutions	457	457
All other liabilities	791	791
	1,248	**1,248**
Fair value of net assets	**1,784**	**1,784**
Share in fair value of net assets acquired (55%)	981	
Goodwill arising on acquisition	288	
Consideration given	**1,269**	

The net cash outflow on acquisition was as follows:

(Thousands of Georgian Lari)

	2008
Cash paid	1,091
Cash acquired with the subsidiary	(7)
Net cash outflow	**1,084**

If the combination had taken place at the beginning of the year, there would be no material difference in the net income and revenue of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

5. Business Combinations (continued)

Acquisitions in 2007

JSC Galt and Taggart Bank

On 30 May 2007 the Group acquired 100% of JSC Galt and Taggart Bank (former JSC Cascade Bank), a banking institution operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC Cascade Bank as of the date of acquisition were as follows:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	2,557	2,557
Due from credit institutions	256	256
Investment securities available-for-sale	6,565	6,565
Investments in associates	64	64
Loans to customers	1,786	1,786
Property and equipment	121	121
Intangible assets	41	41
Prepayments and accrued interest receivables	1,458	1,458
Deferred tax assets	524	524
	13,372	**13,372**
Amounts owed to credit institutions	9	9
Amounts owed to customers	2,085	2,085
Other liabilities	1,039	1,035
	3,133	**3,129**
Fair value of net assets	**10,239**	**10,243**
Goodwill arising on acquisition	599	
Consideration paid	**10,838**	

The net cash outflow on acquisition was as follows:

	2007
Cash paid	10,838
Cash acquired with the subsidiary	(2,557)
Net cash outflow	**8,281**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 75,768 and the total revenue would have been GEL 363,823.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2007 (continued)

JSC Universal Bank of Development and Partnership

On 1 January 2007 the Group acquired 9.92% of JSC Universal Bank of Development and Partnership, a banking institution located in the Ukraine. On 1 October 2007 the Group acquired up to 98.76% of the JSC Universal Bank of Development and Partnership.

The fair values of identifiable assets, liabilities and contingent liabilities of JSC Universal Bank of Development and Partnership as of 1 January 2007 and 1 October 2007 were as follows:

	1 January 2007		*1 October 2007*	
	Fair value recognized on acquisition	*Carrying value*	*Fair value recognized on acquisition*	*Carrying value*
Cash and cash equivalents	53,090	53,090	134,584	134,584
Due from credit institutions	61	61	5,649	5,649
Loans to customers	215,062	215,062	198,201	198,201
Investment securities available-for-sale	8,356	8,356	18,013	18,013
Property and equipment	4,872	4,872	7,399	7,399
Intangible assets	618	618	700	700
Other assets	258	258	503	503
	282,317	**282,317**	**365,049**	**365,049**
Amounts owed to credit institutions	22,073	22,073	21,288	21,288
Amounts owed to customers	188,774	188,774	252,341	252,341
Debt securities issued	7,463	7,463	12,965	12,965
Deferred income tax liabilities	4,299	4,299	6,664	6,664
Other liabilities	446	446	2,581	2,581
	223,055	**223,055**	**295,839**	**295,839**
Fair value of net assets	**59,262**	**59,262**	**69,210**	**69,210**
Share of net assets acquired	9.922%		88.844%	
Fair value of net assets acquired	**5,880**		**61,489**	

Total fair value of net assets acquired	67,369
Recognized Core Deposit Intangible	1,688
Goodwill arising on acquisition	68,016
Consideration paid	**137,073**

The net cash outflow on acquisition was as follows:

	2007
Cash paid	137,073
Cash acquired with the subsidiary	(134,584)
Net cash outflow	**2,489**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 80,344 and the total revenue would have been GEL 414,832.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2007 (continued)

JSC Nova Technology

On 23 November 2007 the Group acquired 51% Nova Technology LLC, an electronic payment service provider operating in Georgia. The fair value of identifiable assets of the company as of the date of acquisition were provisionally estimated at GEL 2,771, while liabilities at GEL 691. The goodwill on acquisition amounted to GEL 411 and net cash outflow from acquisition amounted to GEL 1,486.

Acquisitions in 2006

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations that occurred during 2006 (i.e. JSC Intellect Bank, JSC Insurance Company Aldagi, Intertour LLC, Register Center LLC and Georgian-American Medical Rehabilitation Center Nautilus LLC) in aggregate as of the date of acquisition were as follows:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	12,182	12,182
Due from credit institutions	3,246	3,246
Deposits with banks	117	117
Investment securities– available-for-sale	92	92
Investments in associates	199	1,238
Loans to customers	8,644	8,644
Other debtors and receivables	2,614	2,614
Property and equipment	7,206	6,113
Intangible assets	256	1,103
Reinsurance assets	7,990	7,990
Other assets	3,352	2,297
	45,898	**45,636**
Amounts owed to credit institutions	8,175	8,175
Amounts owed to customers	37,419	37,419
Amounts owned to reinsurers	2,734	2,734
Unearned premiums reserve	4,558	4,588
Claims reserves	5,491	5,491
Borrowings	3,783	3,783
Accounts payable	768	768
Advances received	590	590
Other liabilities	3,232	3,332
	66,750	**66,880**
Fair value of net assets	**(20,852)**	**(21,244)**
Goodwill arising on acquisition	34,975	–
Consideration paid	**14,123**	**–**

The total net cash inflow on all acquisitions was as follows:

	2006
Cash paid	11,923
Cash acquired with the subsidiary	(12,182)
Net cash inflow	**(259)**

If the combination had taken place at the beginning of the period, the profit (loss) of the Group would have been GEL 4,149 and the total revenue would have been GEL 120,247.

(Thousands of Georgian Lari)

6. Segment Information

The primary segment is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Group is organised into seven business segments:

Retail Banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities.
Corporate Banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Brokerage	Principally providing brokerage, custody and corporate finance services to its individual as well as corporate customers. Brokerage also possesses its own proprietary book for trading as well as for non-trading purposes, comprising primarily of trading and investment securities.
Wealth Management	Principally providing wealth management services to VIP individual customers.
Asset Management	Principally providing asset management services to VIP corporate customers.
Insurance	Principally providing wide-scale insurance services to corporate and individual customers.
Corporate Centre	Principally providing back office services to all business segments of the Bank

For purposes of presentation in these consolidated financial statements, due to the insignificance of certain segments to be separately shown, Management has combined Brokerage, Asset Management and Wealth Management business segments into one. Therefore, segment information presented in these consolidated financial statements is classified as follows:

Retail Banking	Brokerage, Asset and Wealth Management
Insurance	Corporate Centre
Corporate Banking	

Corporate and Investment Banking was renamed into Corporate Banking in 2008.

The Group's geographical segments are based on the location of the Group's assets. Income from external customers disclosed by geographical segments is based on the geographical location of its customers.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2008:

	Retail banking	*Corporate banking*	*Brokerage and asset and wealth management*	*Corporate center*	*Insurance*	*Inter – company elimination*	*Total*
Revenue							
External operating income:							
Net interest income	155,290	89,724	597	(24,677)	(94)	–	220,840
Net fees and commission income	30,317	17,047	5,684	2,259	(5,338)	–	49,969
Net foreign currency gains	3,918	7,471	3,259	32,486	–	–	47,134
Other external revenues	3,862	1,181	(699)	1,993	38,285	–	44,622
Operating income from other segments	(744)	(284)	(3,944)	–	(466)	5,438	–
Total operating income	**192,643**	**115,139**	**4,897**	**12,061**	**32,387**	**5,438**	**362,565**
Impairment charge on interest earning assets	57,343	62,947	1,596	7,907	–	(5,646)	124,147
Results							
Segment results	33,003	24,222	(14,971)	(30,260)	(6,951)	5,647	10,690
Unallocated expenses							(11,494)
Loss before tax benefit							**(804)**
Income tax benefit							978
Profit for the year							**174**
Assets and liabilities							
Segment assets	1,401,747	1,538,783	134,974	113,061	51,377	6,179	3,246,121
Unallocated assets							12,786
Total assets							**3,258,907**
Segment liabilities	965,078	1,275,716	135,977	80,903	57,990	–	2,515,664
Unallocated liabilities							24,394
Total liabilities							**2,540,058**
Other segment information							
Capital expenditures:							
Property, plant and equipment	44,403	50,971	9,073	2,601	2,834	–	109,882
Intangible assets	6,790	5,571	387	241	8	–	12,997
Depreciation	9,263	7,583	1,388	271	409	–	18,914
Amortization	993	450	65	80	30	–	1,618

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2007:

	Retail banking	*Corporate banking*	*Brokerage and asset and wealth management*	*Corporate center*	*Insurance*	*Inter-company elimination*	*Total*
Revenue							
External operating income							
Net interest income	71,985	55,783	1,182	190	1,079	–	130,219
Net fees and commission income	21,628	12,057	7,225	(945)	1,783	–	41,748
Net foreign currency gains	1,231	3,799	6,009	15,671	-	–	26,710
Other external revenues	1,264	1,673	23,157	7,754	12,088	–	45,936
Operating income from other segments	–	–	15,184	94	4,228	(19,506)	–
Total operating income	**96,108**	**73,312**	**52,757**	**22,764**	**19,178**	**(19,506)**	**244,613**
Impairment charge on interest earning assets	(12,338)	(9,696)	(332)	(274)	4,523	–	(18,117)
Results							
Segment results	35,343	36,819	21,339	(4,209)	6,437	–	95,729
Unallocated expenses							(6,017)
Profit before tax expense							**89,712**
Income tax expense							(14,070)
Profit for the year							**75,642**
Assets and liabilities							
Segment assets	1,530,339	1,240,984	123,172	31,159	26,400	–	2,952,054
Unallocated assets							1,557
Total assets							**2,953,611**
Segment liabilities	1,350,734	858,376	101,359	32,953	14,989	–	2,358,411
Unallocated liabilities							37,209
Total liabilities							**2,395,620**
Other segment information							
Capital expenditures:							
Property, plant and equipment	40,178	28,262	11,412	1,546	–	–	81,398
Intangible assets	43,571	28,443	1,041	712	–	–	73,767
Depreciation	4,464	3,283	747	147	–	–	8,641
Amortization	788	364	50	17	–	–	1,219

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2006:

	Retail banking	*Corporate banking*	*Brokerage and asset and wealth management*	*Corporate center*	*Insurance*	*Inter-company elimination*	*Total*
Revenue							
External operating income							
Net interest income	31,585	31,890	906	2,341	–	–	66,722
Net fees and commission income	12,917	7,241	3,015	1,513	–	–	24,686
Net dealing gains (losses)	449	1,726	610	9,277	(120)	–	11,942
Other external revenues	140	289	44	1,518	8,491	–	10,482
Operating income from other segments	1	923	(178)	(70)	228	(904)	–
Total operating income	**45,092**	**42,069**	**4,397**	**14,579**	**8,599**	**(904)**	**113,832**
Loan impairment charge/reversal	(4,396)	(8,433)	(398)	(539)	–	–	(13,766)
Results							
Segment results	18,056	28,907	961	(10,746)	279	–	37,457
Unallocated expenses							2,554
Profit before tax							**34,903**
Income tax expense							8,131
Profit for the year							**26,772**
Assets and liabilities							
Segment assets	483,065	613,445	60,302	17,324	38,407	–	1,212,543
Unallocated assets	–	–	–	–	–	–	783
Total assets	**–**	**–**	**–**	**–**	**–**	**–**	**1,213,326**
Segment liabilities	263,057	455,616	72,444	14,533	24,680	–	830,330
Unallocated liabilities							8,138
Total liabilities							**838,468**
Other segment information							
Capital expenditures:							
Property, plant and equipment	19,472	6,490	9,102	–	455		35,519
Intangible assets	9,924	8,175	970	–	18,124		37,193
Depreciation	2,925	744	702	–	70		4,441
Amortization	671	171	161	–	17		1,020

Secondary segment information – geographical segment

The Group operates in two (2007: two, 2006: one) main geographical markets: (a) Georgia, and (b) Ukraine, Belarus and Cyprus (2007: (a) Georgia, and (b) Ukraine and Cyprus, 2006: Georgia). The following table shows the distribution of the Group's external income, total assets and capital expenditure by geographical segment, allocated based on the location of the Group's assets, for the year ended 31 December 2008:

	Georgia 2008	*Ukraine and Cyprus 2008*	*Belarus 2008*	*Total 2008*
External income				
Net interest income	198,027	20,479	2,334	220,840
Net fee and commission income (expense)	44,751	6,022	(804)	49,969
Net foreign currency gains	43,348	2,257	1,529	47,134
Other non-interest income	43,582	871	169	44,622
Total external income	**329,708**	**29,629**	**3,228**	**362,565**
Total assets	**3,096,938**	**113,782**	**48,187**	**3,258,907**
Capital expenditures	**113,865**	**8,158**	**856**	**122,879**

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following table shows the distribution of the Group's external income, total assets and capital expenditure by geographical segment, allocated based on the location of the Group's assets, for the year ended 31 December 2007:

	Georgia 2007	*Ukraine and Cyprus 2007*	*Total 2007*
External income			
Net interest income	124,976	5,243	130,219
Net fee and commission income	40,088	1,660	41,748
Net foreign currency gains	24,601	2,109	26,710
Other non-interest income	45,532	404	45,936
Total external income	**235,197**	**9,416**	**244,613**
Total assets	**2,591,752**	**361,859**	**2,953,611**
Capital expenditures	**73,931**	**81,234**	**155,165**

In 2006, the Group had predominately one geographical segment - Georgia; therefore the distribution of the Group's external income, total assets and capital expenditures were in Georgia.

7. Cash and Cash Equivalents

	2008	*2007*	*2006*
Cash on hand	164,463	93,710	39,079
Current accounts central banks, excluding obligatory reserves	25,731	35,497	236
Current accounts with other credit institutions	44,080	20,208	12,994
Time deposits with credit institutions up to 90 days	163,317	256,355	55,736
Cash and cash equivalents	**397,591**	**405,770**	**108,045**

As of 31 December 2008 GEL 222,332 (2007: GEL 207,065, 2006: GEL 61,790) was placed on current and time deposit accounts with internationally recognized and OECD banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.16 % interest per annum on these deposits (2007: 2.70%, 2006: 3.60%).

(Thousands of Georgian Lari)

8. Amounts Due from Credit Institutions

	2008	*2007*	*2006*
Obligatory reserves with central banks	57,891	144,631	61,461
Time deposits with effective maturity of more than 90 days	37,414	5,838	3,314
Inter-bank loan receivables	4,328	4,091	700
Amounts due from credit institutions	**99,633**	**154,560**	**65,475**

Obligatory reserves with central banks represent amounts deposited with NBG ("National Bank of Georgia"), NBU ("National Bank of Ukraine") and NBB (National Bank of Belarus) relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2008 and 2007 (2006: 1.5%).

As of 31 December 2008 GEL 3,913 (2007: GEL 610, 2006: GEL 1,181) was placed on current accounts and inter-bank deposits with three (2007: one, 2006: two) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As of 31 December 2008 inter-bank loan receivables include GEL 4,328 (2007: GEL 3,979, 2006: GEL 685) placed with an Azerbaijani bank (2006: Georgian bank).

9. Loans to Customers

	2008	*2007*	*2006*
Commercial loans	1,044,959	936,668	403,306
Consumer loans	496,197	331,082	91,901
Residential mortgage loans	391,606	236,397	82,307
Micro loans	151,313	152,436	101,369
Gold-pawn loans	46,374	28,158	26,979
Others	15,174	19,869	–
Loans to customers, gross	**2,145,623**	**1,704,610**	**705,862**
Less – Allowance for loan impairment	(106,601)	(28,929)	(21,020)
Loans to customers, net	**2,039,022**	**1,675,681**	**684,842**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment

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

	Commercial loans 2008	*Consumer loans 2008*	*Residential mortgage loans 2008*	*Micro loans 2008*	*Gold-pawn loans 2008*	*Others 2008*	*Total 2008*
At 1 January 2008	**11,120**	**13,158**	**2,757**	**1,676**	**–**	**218**	**28,929**
Charge	53,349	50,190	7,164	5,415	–	6,694	122,812
Recoveries	3,265	5,088	1,327	1,496	–	–	11,176
Write-offs	(17,685)	(22,082)	(2,724)	(3,221)	–	–	(45,712)
Interest accrued on impaired loans	(3,067)	(3,730)	(199)	(333)	–	–	(7,329)
Currency translation difference	(1,227)	(471)	(356)	(112)	–	(1,109)	(3,275)
At 31 December 2008	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Individual impairment	37,904	25,920	5,068	3,071	–	651	72,614
Collective impairment	7,851	16,233	2,901	1,850	–	5,152	33,987
	45,755	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**290,561**	**42,338**	**35,280**	**8,505**	**–**	**857**	**377,541**

	Commercial loans 2007	*Consumer loans 2007*	*Residential mortgage loans 2007*	*Micro loans 2007*	*Gold-pawn loans 2007*	*Others 2007*	*Total 2007*
At 1 January 2007	**15,522**	**3,606**	**1,223**	**668**	**1**	**–**	**21,020**
Charge (reversal)	(4,093)	16,264	2,448	2,573	(1)	218	17,409
Recoveries	4,544	1,856	593	925	–	–	7,918
Write-offs	(4,173)	(7,577)	(1,445)	(2,380)	–	–	(15,575)
Interest accrued on impaired loans	(740)	(991)	(62)	(110)	–	–	(1,903)
Currency translation difference	60	–	–	–	–	–	60
At 31 December 2007	**11,120**	**13,158**	**2,757**	**1,676**	**–**	**218**	**28,929**
Individual impairment	5,330	3,311	479	539	–	–	9,659
Collective impairment	5,790	9,847	2,278	1,137	–	218	19,270
	11,120	**13,158**	**2,757**	**1,676**	**–**	**218**	**28,929**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**24,753**	**10,366**	**3,551**	**1,700**	**–**	**1,119**	**41,489**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

	Corporate loans 2006	*Consumer loans 2006*	*Residential mortgage loans 2006*	*Micro loans 2006*	*Gold-Pawn Loans 2006*	*Others 2006*	*Total 2006*
At 1 January 2006	**11,319**	**1,984**	**1,834**	**1,455**	**394**	**–**	**16,986**
Charge (reversal)	8,652	4,445	448	614	(393)	–	13,766
Recoveries	2,001	592	523	147	–	–	3,263
Write-offs	(3,339)	(2,674)	(1,403)	(1,241)	–	–	(8,657)
Interest accrued on impaired loans	(3,111)	(741)	(179)	(307)	–	–	(4,338)
At 31 December 2006	**15,522**	**3,606**	**1,223**	**668**	**1**	**–**	**21,020**
Individual impairment	12,171	16	446	–	–	–	12,633
Collective impairment	3,351	3,590	777	668	1	–	8,387
	15,522	**3,606**	**1,223**	**668**	**1**	**–**	**21,020**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**39,954**	**195**	**2,125**	**–**	**–**	**–**	**42,274**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 31 December 2008 comprised GEL 10,241 (2007: GEL 2,324, 2006: GEL 657).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables.
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers

As of 31 December 2008 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 230,733 accounting for 11% of gross loan portfolio of the Group (2007: GEL 226,989 and 13% respectively, 2006: GEL 103,563 and 15%, respectively). An allowance of GEL 10,224 (2007: GEL 1,705, 2006: GEL 1,877) was established against these loans.

As of 31 December 2008, 2007 and 2006 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	2008	***2007***	***2006***
Individuals	1,079,945	699,456	244,462
Trade and services	667,557	648,086	297,819
Construction and development	158,702	157,797	78,273
Energy	66,145	11,512	10,261
Transport and communication	52,631	8,084	23,899
Mining	34,526	55,053	17,674
Agriculture	20,134	64,567	13,990
Others	65,983	60,055	19,484
Loans to customers, gross	**2,145,623**	**1,704,610**	**705,862**
Less – allowance for loan impairment	(106,601)	(28,929)	(21,020)
Loans to customers, net	**2,039,022**	**1,675,681**	**684,842**

Loans have been extended to the following types of customers:

	2008	***2007***	***2006***
Individuals	1,079,945	699,456	244,462
Private companies	1,029,008	967,023	434,185
State-owned entities	36,670	38,131	27,215
Loans to customers, gross	**2,145,623**	**1,704,610**	**705,862**
Less – allowance for loan impairment	(106,601)	(28,929)	(21,020)
Loans to customers, net	**2,039,022**	**1,675,681**	**684,842**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers:

	2008			***2007***			***2006***		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2008	***2008***	***2008***	***2007***	***2007***	***2007***	***2006***	***2006***	***2006***
At 1 January	**9,659**	**19,270**	**28,929**	**12,633**	**8,387**	**21,020**	**11,579**	**5,407**	**16,986**
Charge (reversal)	73,311	49,501	122,812	(4,207)	21,616	17,409	7,259	6,507	13,766
Recoveries	6,690	4,486	11,176	5,706	2,212	7,918	3,078	185	3,263
Write-offs	(12,757)	(32,955)	(45,712)	(3,945)	(11,630)	(15,575)	(5,680)	(2,977)	(8,657)
Interest accrued on impairment loans to customers	(1,933)	(5,396)	(7,329)	(588)	(1,315)	(1,903)	(3,603)	(735)	(4,338)
Currency translation differences	(2,356)	(919)	(3,275)	60	–	60	–	–	–
At 31 December	**72,614**	**33,987**	**106,601**	**9,659**	**19,270**	**28,929**	**12,633**	**8,387**	**21,020**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	31 December 2008	31 December 2007	31 December 2006
Minimum lease payment receivables	50,565	54,844	11,428
Less - Unearned finance lease income	(6,797)	(7,354)	(2,229)
	43,768	**47,490**	**9,199**
Less - Allowance for impairment	(2,163)	(816)	(108)
Finance lease receivables, net	**41,605**	**46,674**	**9,091**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As of 31 December 2008, concentration of investments in five largest lessees comprised GEL 32,112 or 73.4% of total finance lease receivables (2007: GEL 38,723 or 83%, 2006: GEL 6,734 or 74%) and finance income received from them as of 31 December 2008 comprised GEL 3,512 or 50.1% of total finance income from lease (2007: GEL 2,627 or 64%, 2006: GEL 754 or 65%).

As of 31 December 2008 lease receivables amounting to GEL 24,380 represent receivables from a Government agency (2007: GEL 38,783, 2006: nil).

Future minimum lease payments to be received after 31 December 2008, 2007 and 2006 are as follows:

	31 December 2008	31 December 2007	31 December 2006
Within 1 year	37,550	34,087	5,682
From 1 to 5 years	13,015	20,757	5,733
More than 5 years	–	–	13
Minimum lease payment receivables	**50,565**	**54,844**	**11,428**

Minimum lease payments to be received after 31 December 2008, 2007 and 2006 are denominated in the following currencies:

	31 December 2008	31 December 2007	31 December 2006
US Dollar	41,959	48,208	5,494
Euro	5,919	6,636	5,934
Belarussian Rouble	2,687	–	–
Minimum lease payment receivables	**50,565**	**54,844**	**11,428**

The equipment the Group leases out at 31 December 2008, 2007and 2006 can be segregated into the following categories:

	31 December 2008		31 December 2007		31 December 2006	
	Amount	Number of projects	Amount	Number of projects	Amount	Number of projects
Air and land transport	37,650	126	44,035	87	1,648	30
Construction equipment	8,985	46	9,306	29	8,879	15
Machinery & equipment	3,930	46	1,503	16	901	10
Minimum lease payment receivables	**50,565**	**218**	**54,844**	**132**	**11,428**	**55**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Allowance for impairment of finance lease receivables

Movements of the allowance for impairment of finance lease receivables are as follows:

	2008	*2007*	*2006*
At 1 January	**816**	**108**	**44**
Charge (reversal)	1,335	708	64
Currency translation difference	12	–	–
At 31 December	**2,163**	**816**	**108**
Individual impairment	1,600	318	24
Collective impairment	563	498	84
	2,163	**816**	**108**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,730**	–	**322**

11. Investment Securities

Available-for-sale securities comprise:

	2008	*2007*	*2006*
Corporate shares	21,723	6,763	5,534
Corporate bonds	6,748	24,879	4,353
Ministry of Finance treasury bills	5,266	10,745	–
Available-for-sale securities	**33,737**	**42,387**	**9,887**

Corporate shares as of 31 December 2008 are primarily comprised of investments in Georgian retail chain of GEL 9,175 (2007: GEL 3,998) and meat processing company of GEL 6,842 (2007: wine producing company of GEL 1,555). As of 31 December 2006, investments in available-for-sale corporate shares include GEL 4,353 investments in two financial institutions in Georgia and Ukraine.

Corporate bonds as of 31 December 2008 are comprised of GEL 6,748 investments in several financial institutions in Ukraine (2007: GEL 15,542). Corporate bonds as of 31 December 2006 comprise of GEL 5,534 investment in one financial institution in Georgia.

Nominal interest rates and maturities of these securities are as follows:

	31 December 2008		*31 December 2007*		*31 December 2006*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	14.41%	1-3	14.47%	1-6 years	15%	2007
Ministry of Finance treasury	11.95%	1-3	9.61%	1-4 years	–	–

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise:

	2008		*2007*		*2006*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Certificates of deposit of central banks	14,826	15,000	146,016	149,151	140,390	142,976
State debt securities	8,019	8,047	38,115	37,930	46,740	46,770
Corporate bonds	–	–	8,263	7,958	114	114
Ministry of Finance treasury bills	–	–	70	70	–	–
Held-to-maturity securities	**22,845**	**23,047**	**192,464**	**195,109**	**187,244**	**189,860**

As of 31 December 2007 corporate bonds comprised of GEL 8,263 representing investments in two Russian financial institutions securities.

Contractual interest rates per annum and maturities of these securities are as follows:

	31 December 2008		*31 December 2007*		*31 December 2006*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Certificates of deposit of central	11.79%	2009	9.79%	2008	11.77%	2007
State debt securities	13.00%	2009	13.00%	2009	13.00%	2008
Corporate bonds	–	–	9.50%	2010	14.67%	2007
Ministry of Finance treasury bills	–	–	13.00%	2008	–	–

12. Investments in Associates

The following associates are accounted for under the equity method:

2008

Associates	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC SB Iberia	49.00%	Georgia	13/12/2007	Construction	20/03/2008
JSC SB Iberia 2	49.00%	Georgia	28/03/2008	Construction	
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Wine production	13/02/2007
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	
JSC iCall	27.03%	Georgia	22/03/2005	Call centre	22/11/2006
JSC N Tour	30.00%	Georgia	1/11/2001	Travel Services	29/05/2008
JSC Hotels and Restaurants	50.00%	Georgia		Food retail	29/05/2008
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business service	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

2007

Associates	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC SB Iberia	49.00%	Georgia	12/13/2007	Construction	N/A
JSC Teliani Valley	25.17%	Georgia	30/06/2000	Wine production	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	N/A
Matsne +, LLC	28.00%	Georgia	29/06/2005	Advertising	15/12/2006

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

2006

Associates	Ownership / Voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
Matsne +, LLC	28.00%	Georgia	29/06/2005	Advertising	15/12/2006

Movements in investments in associates were as follows:

	2008	2007	2006
Investments in associates, beginning of year, gross	**5,208**	**496**	**–**
Purchase cost	13,355	5,275	496
Disposal	(860)	(700)	–
Share of (loss) profit	(713)	137	–
Investments in associates, end of year, gross	**16,990**	**5,208**	**496**
Less – Allowance for impairment (Note 17)	(274)	–	–
Investments in associates, end of year, net	**16,716**	**5,208**	**496**

Investments in associates at 31 December 2008 include goodwill of GEL 7,354 (2007: GEL 2,413, 2006: GEL 475).

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	2008	2007	2006
Assets	58,171	15,611	166
Liabilities	(32,023)	(5,722)	(147)
Net assets	**26,148**	**9,889**	**19**

Aggregated revenue and profit of associates	2008	2007	2006
Revenue	34,663	10,973	–
(Loss) profit	(1,607)	1,089	–

Associate company – JSC Teliani Valley is listed on the Georgian Stock Exchange. As of 31 December 2008 the carrying value of the investment in JSC Teliani Valley was GEL 5,042 (2007: GEL 3,810) while the fair value equalled GEL 7,263 (2007: GEL 12,996).

13. Investment Properties

	2008	2007	2006
At 1 January	**35,065**	**1,224**	–
Purchases	12,613	10,499	1,224
Net change in fair value through profit and loss	(389)	16,362	–
Transfers from property and equipment (Note 14)	–	5,132	–
Fair value adjustment through equity	–	1,848	–
At 31 December	**47,289**	**35,065**	**1,224**

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 December 2008 and 2007. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

(Thousands of Georgian Lari)

13. Investment properties (Continued)

Rental income and direct operating expenses arising from investment properties comprise:

	2008	*2007*	*2006*
Rental income	1,211	628	20
Direct operating expenses	(76)	(50)	–

Entire amount of direct operating expenses participated in the generation of rental income during the respective periods.

14. Property and Equipment

The movements in property and equipment during 2008 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2007	**135,084**	**42,285**	**21,516**	**5,765**	**4,111**	**12,973**	**221,734**
Acquisition through business combinations	18,162	696	1,095	75	–	219	20,247
Additions	1,174	33,398	13,215	3,416	779	57,902	109,884
Disposals	(4,677)	(1,934)	(468)	(1,491)	(1,023)	(1,976)	(11,569)
Transfers	7,815	167	480	263	4,096	(12,821)	–
Revaluation	(11,669)	–	–	–	–	–	(11,669)
Currency translation adjustment	1,141	1,991	662	(203)	503	2,253	6,347
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Accumulated impairment							
31 December 2007	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Impairment charge	158	1	84	1	–	–	244
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Accumulated depreciation							
31 December 2007	**62**	**7,531**	**6,602**	**1,306**	**1,110**	**–**	**16,611**
Depreciation charge	2,832	7,048	5,515	1,480	1,795	–	18,670
Currency translation difference	(68)	(116)	(88)	(63)	2	–	(333)
Disposals	(563)	(295)	(162)	(130)	(105)	–	(1,255)
Revaluation	(1,214)	–	–	–	–	–	(1,214)
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Net book value:							
31 December 2007	**134,555**	**34,754**	**14,914**	**4,459**	**3,001**	**12,973**	**204,656**
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during 2007 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2006	**37,652**	**21,005**	**11,483**	**1,824**	**2,027**	**4,168**	**78,159**
Acquisition through business combinations	4,147	1,782	2,759	336	–	34	9,058
Additions	25,249	18,900	7,912	3,492	526	16,261	72,340
Disposals	–	(69)	(946)	(35)	(89)	(445)	(1,584)
Transfers	5,398	–	–	–	1,647	(7,045)	–
Transfers to Investment properties	(5,132)	–	–	–	–	–	(5,132)
Revaluation	66,975	–	–	–	–	–	66,975
Currency translation adjustment	795	667	308	148	–	–	1,918
31 December 2007	**135,084**	**42,285**	**21,516**	**5,765**	**4,111**	**12,973**	**221,734**
Accumulated impairment							
31 December 2006 and 31 December 2007	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
31 December 2006	**1,227**	**4,314**	**4,097**	**749**	**477**	–	**10,864**
Depreciation charge	926	3,236	3,041	744	694	–	8,641
Currency translation difference	(7)	–	2	(5)	–	–	(10)
Disposals	(14)	(19)	(538)	(182)	(61)	–	(814)
Revaluation	(2,070)	–	–	–	–	–	(2,070)
31 December 2007	**62**	**7,531**	**6,602**	**1,306**	**1,110**	**–**	**16,611**
Net book value:							
31 December 2006	**35,958**	**16,691**	**7,386**	**1,075**	**1,550**	**4,168**	**66,828**
31 December 2007	**134,555**	**34,754**	**14,914**	**4,459**	**3,001**	**12,973**	**204,656**

The movements in property and equipment during 2006 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2005	**22,262**	**11,354**	**8,636**	**1,323**	**1,314**	**369**	**45,258**
Acquisition through business combinations	4,758	1,129	889	194	236	–	7,206
Additions	9,427	8,639	3,847	556	211	5,633	28,313
Disposals	(137)	(117)	(1,889)	(249)	(165)	(61)	(2,618)
Transfers	1,342	–	–	–	431	(1,773)	–
31 December 2006	**37,652**	**21,005**	**11,483**	**1,824**	**2,027**	**4,168**	**78,159**
Accumulated impairment							
31 December 2005 and 2006	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
31 December 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Depreciation charge	616	1,401	1,905	217	302	–	4,441
Disposals	(108)	(141)	(1,895)	(244)	(165)	–	(2,553)
31 December 2006	**1,227**	**4,314**	**4,097**	**749**	**477**	**–**	**10,864**
Net book value							
31 December 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**
31 December 2006	**35,958**	**16,691**	**7,386**	**1,075**	**1,550**	**4,168**	**66,828**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The Group engaged Georgian Valuation Company, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. According the most recent revaluation report, the latest date of the revaluation was 31 December 2008. If the buildings were measured using the cost model, the carrying amounts of the buildings as of 31 December 2008, 2007 and 2006 would be as follows:

	2008	*2007*	*2006*
Cost	66,917	62,605	32,148
Accumulated depreciation and impairment	(7,353)	(2,815)	(1,443)
Net carrying amount	**59,564**	**59,790**	**30,705**

15. Goodwill and Other Intangible Assets

Movements in goodwill and intangible assets during 2008 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total*
Cost				
31 December 2007	**110,498**	**1,688**	**7,611**	**119,797**
Acquisition through business combinations (Note 5)	23,682	843	117	24,642
Additions	–	–	12,997	12,997
Disposals	–	–	(170)	(170)
Currency translation difference	58	(32)	236	262
31 December 2008	**134,238**	**2,499**	**20,791**	**157,528**
Accumulated amortization and impairment				
31 December 2007	**426**	–	**3,382**	**3,808**
Amortization charge	–	–	1,618	1,618
Disposals	(426)	–	(12)	(438)
Currency translation difference	–	–	81	81
31 December 2008	**–**	**–**	**5,069**	**5,069**
Net book value:				
31 December 2007	**110,072**	**1,688**	**4,229**	**115,989**
31 December 2008	**134,238**	**2,499**	**15,722**	**152,459**

Computer software and licenses additions in 2008 include GEL 8,625 for the acquisition of a 7-year exclusive license (commencing on the date of launching) of American Express Cards and its related products in Georgia.

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

Movements in goodwill and intangible assets during 2007 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software*	*Total*
Cost				
31 December 2006	**40,705**	**–**	**6,355**	**47,060**
Acquisition through business combinations (Note 5)	69,026	1,688	1,155	71,869
Additions	767	–	1,131	1,898
Disposals	–	–	(1,030)	(1,030)
31 December 2007	**110,498**	**1,688**	**7,611**	**119,797**
Accumulated amortization and impairment				
31 December 2006	**426**	**–**	**3,205**	**3,631**
Amortization charge	–	–	1,219	1,219
Impairment charge	–	–	3	3
Disposals	–	–	(967)	(967)
Revaluation of amortization charge	–	–	(79)	(79)
Currency translation difference	–	–	1	1
31 December 2007	**426**	**–**	**3,382**	**3,808**
Net book value:				
31 December 2006	**40,279**	**–**	**3,150**	**43,429**
31 December 2007	**110,072**	**1,688**	**4,229**	**115,989**

Movements in goodwill and intangible assets during 2006 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
31 December 2005	**5,730**	**4,144**	**9,874**
Acquisition through business combinations	34,975	255	35,230
Additions	–	1,963	1,963
Disposals	–	(7)	(7)
31 December 2006	**40,705**	**6,355**	**47,060**
Accumulated amortization and impairment			
31 December 2005	**–**	**2,189**	**2,189**
Amortization charge	–	1,020	1,020
Impairment charge	426	–	426
Disposals	–	(4)	(4)
31 December 2006	**426**	**3,205**	**3,631**
Net book value:			
31 December 2005	**5,730**	**1,955**	**7,685**
31 December 2006	**40,279**	**3,150**	**43,429**

As of 31 December 2008 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Belarusky Narodny Bank
- JSC BG Bank (formerly United Bank of Development and Partnership)
- JSC Insurance Company Aldagi – BCI
- JSC Intertour
- United Georgian Registrar LLC
- JSC Nova Technology

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

As of 31 December 2007 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Insurance Company Aldagi-BCI
- JSC Universal Bank of Development and Partnership
- JSC Galt & Taggart Bank
- JSC Intertour
- United Georgian Registrar Ltd
- JSC My Family Clinic
- JSC Nova Technology

As of December 31, 2006 Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Insurance Company BCI
- Georgian-American Medical Rehabilitation Center Nautilus LLC
- Intertour LLC
- JSC Insurance Company Aldagi
- JSC SB Reestri

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units follows:

	WACC applied for impairment (2008)	*WACC applied for impairment (2007)*	*WACC applied for impairment (2006)*	*Carrying amount of goodwill* 31 December 2008	31 December 2007	31 December 2006
JSC Bank of Georgia	7.5%	10%	11%	22,391	21,308	21,308
JSC BG Bank	11.7%	9%	N/A	68,016	68,016	–
JSC Belarusky Narodny Bank	N/A	N/A	N/A	23,394	–	–
JSC Insurance Company Aldagi – BCI	15.8%	13%	14%	18,742	18,454	14,259
JSC Insurance Company BCI	N/A	N/A	11%	–	–	2,341
JSC Insurance Company Europace	N/A	N/A	11%	–	–	1,450
JSC My Family Clinic	15.8%	13%	N/A	220	220	–
JSC Galt & Taggart Bank	N/A	10%	N/A	–	599	–
Intertour LLC	12.0%	12%	14%	698	698	514
United Securities Registrar of Georgia, LLC	14.0%	14%	N/A	366	366	–
JSC Nova Technology	14.0%	14%	N/A	411	411	–
Company Center LLC	N/A	N/A	16%	–	–	216
Register Center LLC	N/A	N/A	16%	–	–	90
ICT Delameni LLC	N/A	N/A	16%	–	–	60
Holiday Travel LLC	N/A	N/A	14%	–	–	41
Total				**134,238**	**110,072**	**40,279**

Goodwill amount that arose from JSC Intellect Bank and JSC Tbiluniversal Bank acquisition has been allocated to JSC Bank of Georgia, mainly due to the fact that JSC Bank of Georgia has utilized the assets and liabilities of the said financial institutions.

(Thousands of Georgian Lari)

15. Goodwill and Other Intangible Assets (continued)

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, which are also reportable segments, for impairment testing: corporate banking and retail banking.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2008	*2007*	*2006*
Retail banking	78,408	55,036	13,628
Corporate banking	35,381	34,889	7,682
Insurance	18,962	18,673	18,049
Asset & wealth management and brokerage	1,487	1,474	920
	134,238	**110,072**	**40,279**

Key assumptions used in value in use calculations

The recoverable amount of the Asset Management unit has been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections beyond the five-year period are extrapolated using a projected growth rate.

The following rates are used by the Bank for corporate banking and retail banking:

	Corporate Banking			*Retail Banking*		
	2008, %	*2007, %*	*2006, %*	*2008, %*	*2007, %*	*2006, %*
Discount rate	7.5%	10%	11%	7.5%	10%	11%
Projected growth rate	7.5%	0%	0%	7.5%	0%	0%

The following rates are used by the Bank for Insurance and Asset & Wealth Management and Brokerage:

	Insurance			*Asset & Wealth Management and Brokerage*		
	2008, %	*2007, %*	*2006, %*	*2008, %*	*2007, %*	*2006, %*
Discount rate	15.8%	13%	15%	12%-14%	12%-14%	14%
Projected growth rate	15.8%	0%	0%	0%	0%	0%

The calculation of value-in-use for both Asset Management and Retail Banking units is most sensitive to interest margins and discount rates assumptions:

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax expense comprises:

	2008	*2007*	*2006*
Current income tax expense	6,762	7,638	3,697
Deferred tax (benefit) expense –			
origination and reversal of temporary differences	(10,929)	17,065	5,427
Less: Deferred tax recognised directly in equity	3,189	(10,633)	(993)
Income tax (benefit) expense	**(978)**	**14,070**	**8,131**

The income tax rate applicable to the majority of the Group's income is 15% in 2008 (2007 and 2006: 20%). The income tax rate applicable to subsidiaries income ranges from 15% to 26% for 2008 (2007: from 15% to 25%, 2006: 20%). The tax rate for interest income on state securities was 10%. Corporate income tax rate in Georgia reduced from 25% to 20% effective 1 January 2009 (from 20% to 15% effective 1 January 2008). Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As of 31 December 2008, 2007 and 2006 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2008	*2007*	*2006*
(Loss) profit before income tax benefit (expense)	**(804)**	**89,712**	**34,903**
Statutory tax rate	15%	20%	20%
Theoretical income tax (benefit) expense at statutory tax rate	**(121)**	**17,942**	**6,981**
Tax at the domestic rates applicable to profits in the respective country	(837)	25	–
Non-deductible share-based compensation expenses	1,240	964	517
Other operating income	207	62	–
State securities at lower tax rates	(1,020)	(1,900)	–
Tax effect of intercompany transactions	(783)	–	–
Change in unrecognized deferred tax assets	–	144	–
Interest income	–	–	46
Effect of reduction in tax rate	–	(3,226)	–
Non-deductible expenses:			
- impairment of intangible assets	–	–	40
- other impairment losses	171	(153)	75
- entertainment and business trips	67	–	225
- other	98	212	247
Income tax (benefit) expense	**(978)**	**14,070**	**8,131**

Georgia currently has an updated tax code which has been adopted and put in force in 2006. Applicable taxes include corporate income tax (profits tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

As of 31 December tax assets and liabilities consist of the following:

	2008	*2007*	*2006*
Current tax assets	8,095	998	–
Deferred tax assets	4,691	559	–
Tax assets	**12,786**	**1,557**	**–**
Current tax liabilities	779	6,500	751
Deferred tax liabilities	23,615	30,709	7,387
Tax liabilities	**24,394**	**37,209**	**8,138**

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*				*Origination and reversal of temporary differences*			
	2005	*In the income statement*	*Directly in equity*	*2006*	*In the income statement*	*Directly in equity*	*Effect of business combi-nation*	*2007*	*In the income statement*	*Directly in equity*	*Effect of business combi-nation*	*2008*
Tax effect of deductible temporary differences:												
Amounts due to credit institutions	–	1,457	–	1,457	(1,422)	–	–	35	(35)	–	–	–
Investment securities: available-for-sale	–	–	–	–	–	–	–	–	296	1,530	–	1,826
Loans to customers	–	–	–	–	80	–		80	390	–	–	470
Securities issued	–	–	–	–		–	55	55	(55)	–	–	–
Reinsurance assets	–	–	–	–	124	–	–	124	119	–	–	243
Reinsurance premiums receivables	–	–	–	–	–	–	–	–	2,073	–	–	2,073
Allowances for impairment and provisions for other losses	59	788	–	847	(622)	–	–	225	240	–	–	465
Tax losses carried forward	446	(446)	–	–	1,313	–	–	1,313	16,689	–	–	18,002
Finance lease receivables	12	(12)	–	–	7	–	–	7	277	–	–	284
Intangible assets	119	(119)	–	–	181	–	–	181	58	–	–	239
Property and equipment	30	(30)	–	–	2	–	–	2	(175)	1,659	297	1,783
Other assets	–	–	–	–	115	–		115	348	–	–	463
Other liabilities	–	–	–	–	263	–	39	302	433	–	–	735
Gross deferred tax assets	**666**	**1,638**	**–**	**2,304**	**41**	**–**	**94**	**2,439**	**20,658**	**3,189**	**297**	**26,583**
Unrecognized deferred tax assets	(63)	–	–	63	(148)	–	(122)	(207)	207	–	–	–
Deferred tax assets	**603**	**1,638**	**–**	**2,367**	**(107)**	**–**	**(28)**	**2,232**	**20,865**	**3,189**	**297**	**26,583**
Tax effect of taxable temporary differences:												
Amounts due to credit institutions	–	–	–	–	–	–	1,710	1,710	341	–	–	2,051
Amounts due to customers	–	–	–	–	502	–	123	625	(117)	–	–	508
Securities available-for-sale	–	–	–	–	150	–	32	182	–	–	–	182
Loans to customers	665	915	993	2,573	(305)	–	2,223	4,491	2,612	–	–	7,103
Reinsurance assets	–	–	–	–	27	–	–	27	–	–	–	27
Insurance premium receivables	–	–	–	–	6	–	–	6	(6)	–	–	–
Allowances for impairment and provisions for other losses	124	(124)	–	–	38	–	–	38	1,185	–	–	1,223
Property and equipment	1,638	4,136	–	5,774	3,149	10,173	1,060	20,156	8,324	–	–	28,480
Investment properties	–	–	–	–	2,743	460	–	3,203	(342)	–	–	2,861
Intangible assets	–	731	–	731	277	–	–	1,008	1,289	–	–	2,297
Other assets	78	(78)	–	–	414	–	522	936	(595)	–	–	341
Other liabilities	185	491	–	676	(676)	–	–	–	434	–	–	434
Deferred tax liabilities	**2,690**	**6,071**	**993**	**9,754**	**6,325**	**10,633**	**5,670**	**32,382**	**13,125**	**–**	**–**	**45,507**
Net deferred tax assets (liabilities)	**(2,087)**	**(4,433)**	**(993)**	**(7,387)**	**(6,432)**	**(10,633)**	**(5,698)**	**(30,150)**	**7,740**	**3,189**	**297**	**(18,924)**

(Thousands of Georgian Lari)

17. Other Impairment Allowance and Provisions

The movements in other impairment allowances and provisions were as follows:

	Impairment allowance for investments in associates	*Impairment allowance for other assets*	*Provision for guarantees and commitments*	*Total*
31 December 2005	**279**	**919**	**975**	**2,173**
Charge (reversal)	(176)	309	(303)	(170)
Write-offs	(103)	(700)	–	(803)
Recoveries	–	–	–	–
31 December 2006	**–**	**528**	**672**	**1,200**
Charge (reversal)	–	(696)	331	(365)
Write-offs	–	(100)	–	(100)
Recoveries	–	274	–	274
31 December 2007	**–**	**6**	**1,003**	**1,009**
Charge	274	580	3,697	4,551
Write-offs	–	(57)	(437)	(494)
Recoveries	–	20	–	20
31 December 2008	**274**	**549**	**4,263**	**5,086**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

18. Other Assets and Other Liabilities

Other assets comprise:

	2008	*2007*	*2006*
Reinsurance assets	21,493	15,987	11,279
Insurance premiums receivable	20,497	14,354	5,791
Accounts receivable	7,243	3,690	807
Receivables from money transfers	5,208	997	3,853
Receivables from factoring operations	4,539	1,249	–
Assets held-for-sale	4,469	–	–
Foreclosed assets	3,464	3,415	4,543
Receivables from sale of assets	2,317	–	–
Inventory	1,966	–	–
Operating taxes receivables	1,363	3,500	783
Operating lease receivables	448	1,286	226
Prepayments for purchase of property and equipment	245	10,725	5,029
Trading securities owned	92	6,342	–
Settlements on operations with securities	39	2,614	826
Other	2,287	3,505	680
	75,670	**67,664**	**33,817**
Less – Allowance for impairment of other assets (Note 17)	(549)	(6)	(528)
Other assets	**75,121**	**67,658**	**33,289**

Foreclosed assets represent assets repossessed from the borrowers of the Bank. These assets are not used for their intended purposes and are being held for short-term purposes with intent of sale.

Assets held-for-sale as of 31 December 2008 comprise GEL 4,469 of investment in 19.5% share ownership of JSC "GPC", a retail chain of drug stores. Investment was made in June 2008 primarily for the purpose of observing the company's business operations and associated risks in order to decide on acquisition. Based on observations and analysis made, the management of the Group decided in November 2008 to dispose the investment. Negotiations with potential buyers started in December 2008 and are still ongoing. The Group had no gains or losses arising from change in fair value of the asset.

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities (Continued)

Other liabilities comprise:

	2008	*2007*	*2006*
Insurance contracts liabilities	44,340	31,813	16,265
Accruals for employee compensation	14,165	20,943	4,476
Accounts payable	12,803	4,783	2,033
Other insurance liabilities	9,424	6,151	4,288
Amounts payable for purchase of intangible assets	5,959	–	–
Creditors	5,858	10,907	12,920
Other taxes payable	4,783	7,384	623
Pension benefit obligations	1,642	1,262	–
Dividends payable	314	317	313
Debt securities issued	–	4,993	1,073
Amounts payable for share acquisitions	–	1,316	2,475
Other	2,267	10,268	1,165
Other liabilities	**101,555**	**100,137**	**45,631**

Amounts payable for share acquisitions as of 31 December 2007 included GEL 1,084 hold-back amount of acquisition of JSC Galt and Taggart Bank. Dividends payable represent dividends accrued but not yet collected by the shareholders of the Bank. These dividends are those declared for years 1997 through 2007.

Debt securities issued consisted of the following:

	2008	*2007*	*2006*
Series A bonds	–	1,603	–
Series B bonds	–	3,390	–
Promissory notes issued	–	–	1,073
Debt securities issued	–	**4,993**	**1,073**

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2008	*2007*	*2006*
Borrowings from international credit institutions	1,108,014	821,667	142,281
Time deposits and inter-bank loans	91,389	62,009	79,180
Correspondent accounts	17,319	18,119	2,920
Amounts due to credit institutions	**1,216,722**	**901,795**	**224,381**

During 2008 the Group received short-term funds from Georgian banks in different currencies. As of 31 December 2008 the Group had an equivalent of GEL 32,795 (2007: GEL 4,744, 2006: GEL 871) in foreign currencies received as deposits from Georgian banks. In 2008 the Group paid up to 4.85% interest on these deposits (2007: 5%, 2006: 6%).

19. Amounts Due to Credit Institutions (Continued)

Borrowings from international credit institutions, time deposits and inter-bank loans were comprised of:

As of 31 December 2008

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate per annum*	*Facility amount in original currency*	*Outstanding Balance as of 31 December 2008 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9%	200,000	340,864
Rubrika Finance Company Netherlands B.V.	6-Jun-08	6-Jun-10	USD	LIBOR+9%	140,000	230,740
Merrill Lynch International	21-Dec-07	21-Jan-09	USD	LIBOR+7.65%	65,000	111,806
Citibank International PLC	17-Aug-07	17-Feb-09	USD	LIBOR+2.2%	43,500	73,780
Merrill Lynch International	17-Aug-07	17-Aug-17	USD	LIBOR+5.995%	35,000	59,488
National Bank of Georgia	30-Sep-08	30-Sep-09	GEL	13%	58,900	58,900
Netherland Development Finance Company	30-Jun-08	15-Oct-18	USD	LIBOR+7.25%	30,000	50,351
Overseas Private Investment Corporation	19-Dec-08	19-Dec-18	USD	5.75%	29,000	47,605

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Citibank International PLC	20-Aug-07	20-Aug-10	USD	LIBOR+2.75	25,000	41,875
Semper Augustos B.V.	31-Oct-07	25-Oct-17	USD	11.65%	15,000	25,515
Netherlands Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	20,387
Overseas Private Investment Corporation	19-Dec-08	19-Dec-18	USD	7.75%	10,000	16,379
JSC TBC Bank	31-Dec-08	5-Jan-09	EUR	5%	5,000	11,824
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	11,242
Hillside Apex Fund Ltd (subordinated debt)	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,630
JSC TBC Bank	26-Dec-08	5-Jan-09	USD	4%	5,000	8,340
World Business Capital	29-Mar-07	25-Mar-17	USD	LIBOR+2.75%	5,226	7,633
JSC HSBC Bank Georgia	29-Jul-08	29-Jan-09	USD	9%	4,000	6,926
Commerzbank AG	16-Dec-05	30-Dec-10	USD	LIBOR+1.3%	5,000	5,408
JSC TBC Bank	29-Dec-08	6-Jan-09	GEL	4.5%	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	various	56,709
Total						**1,199,403**

As of 31 December 2007

Credit institution	***Grant date***	***Contractual maturity***	***Currency***	***Interest rate per annum***	***Facility amount in original currency***	***Outstanding Balance as of 31 December 2007 in GEL (*)***
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	9%	200,000	323,110
Merrill Lynch International	21-Dec-07	21-Jan-09	USD	USDLIBOR+7.65%	65,000	101,577
Citibank International PLC	17-Aug-07	17-Aug-08	USD	LIBOR+1.9%	55,000	85,505
Citibank International PLC	17-Aug-07	17-Feb-09	USD	LIBOR+2.2%	43,500	69,386
Merrill Lynch International	17-Aug-07	17-Aug-17	USD	LIBOR+5.995%	35,000	58,135
Citibank International PLC	20-Aug-07	20-Aug-10	USD	LIBOR+2.75%	25,000	45,665
National Bank of Georgia	31-Dec-07	4-Jan-08	GEL	14%	30,000	30,000
Semper Augustos B.V.	31-Oct-07	25-Oct-17	USD	11.65%	15,000	24,360
National Bank of Georgia	21-Feb-06	20-Feb-08	GEL	6%	20,000	20,014
Netherlands Development Finance Company	22-Jan-07	15-Mar-14	USD	LIBOR+3.3%	12,500	20,157
World Business Capital	17-Feb-06	1-Oct-16	USD	LIBOR+2.75%	10,000	12,728
European Bank for Reconstruction and Development	17-Dec-07	Revolving	USD	LIBOR+1.5%	5,800	9,253
Hillside Apex Fund Ltd (subordinated debt)	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,354
World Business Capital	29-Mar-07	25-Mar-17	USD	LIBOR+2.75%	4,607	7,363
AKA Ausfuhrkredit-Gesellschaft m.b.H.	18-Nov-03	Revolving	EUR	LIBOR+2%	5,000	6,626
Commerzbank AG	16-Dec-05	30-Dec-10	USD	LIBOR+1.3%	5,000	5,816
Balances less than GEL 5,000	various	various	various	various	–	55,627
Total						**883,676**

19. Amounts Due to Credit Institutions (Continued)

As of 31 December 2006

Credit institution	***Grant date***	***Contractual maturity***	***Currency***	***Interest rate per annum***	***Facility amount in original currency***	***Outstanding Balance as of 31 December 2006 in GEL (*)***
HBK Investments LP (Semper Augustus B.V.) (convertible subordinated debt)	1-Oct-06	27-Sep-16	USD	4%	25,000	43,335
Citibank N. A. USA	24-Mar-06	24-Sep-07	USD	LIBOR+4.75%	25,000	42,886
Merrill Lynch International	15-Aug-06	15-Aug-07	USD	LIBOR+2.65%	25,000	44,320
National Bank of Georgia	21-Feb--06	20-Feb-08	GEL	6.20%	20,000	20,000
World Business Capital	17-Feb-06	01-Oct-16	USD	LIBOR+2.75%	10,000	17,168
Hillside Apex Fund Ltd (subordinated debt)	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,996
AKA Ausfuhrkredit-Gesellschaft m.b.H.	18-Nov-03	Revolving	EUR	LIBOR+2%	5,000	6,973
Commerzbank AG	16-Dec-05	30-Dec-10	USD	LIBOR+1.3%	5,000	6,586
International Finance Corporation	30-Jun-03	15-Sep-10	USD	LIBOR+4%	5,000	6,399
Balances less than GEL 5,000	various	various	various	various	–	24,798
Total						**221,461**

*** - includes accrued interest**

The loan received on 1 October 2006 from a fund, HBK Investments L.P. (Semper Augustus B.V.), had convertibility feature valid for 2 years from the loan granting date (convertibility period). HBK was able to convert the granted loan into ordinary shares of the Bank for price equal to USD 21.6 per share. According to the contract there was no lower end limit

(Thousands of Georgian Lari)

to the volume of conversion. As of 31 December 2007 HBK has exercised the convertibility option. For details please see Note 21.

In February 2007 BG Finance B.V., a special purpose entity with limited liability incorporated under the laws of the Netherlands, issued an aggregate principal amount of US$ 200 million 9.0% Loan Participation Notes ("LPN") due in 2012. The LPNs were issued for the sole purpose of financing a loan of the Bank pursuant to a loan agreement dated 6 February 2007 between BG Finance B.V. and the Bank. These LPNs are listed on the official list of the UK Listing Authority and traded on the London Stock Exchange.

Agreements for significant borrowings contain certain covenants establishing for the Group different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. As of 31 December 2008, 2007 and 2006 the Group complied with all the covenants of the loans received from credit institutions.

20. Amounts Due to Customers

The amounts due to customers include the following:

	2008	*2007*	*2006*
Current accounts	612,502	737,045	361,164
Time deposits	580,622	618,431	198,482
Amounts due to customers	**1,193,124**	**1,355,476**	**559,646**
Held as security against letters of credit	**443**	**9,673**	**6,788**
Held as security against guarantees	**69,998**	**16,701**	**1,079**

At year-end, amounts due to customers of GEL 323,662 (27%) were due to the 10 largest customers (2007: GEL 302,246 (22%), 2006: GEL 139,866 (25%)).

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

	2008	*2007*	*2006*
Individuals	495,747	582,991	273,650
Private enterprises	627,049	662,808	209,312
State and budget organizations	70,328	109,677	76,684
Amounts due to customers	**1,193,124**	**1,355,476**	**559,646**

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

	2008	*2007*	*2006*
Individuals	495,747	582,991	273,650
Trade and services	296,110	354,874	107,082
Energy	134,275	78,410	6,758
Transport and communication	70,806	61,636	18,515
Governmental	70,328	109,677	76,684
Construction and development	40,146	62,953	25,977
Mining and processing	16,364	68,407	31,757
Agriculture	8,426	260	625
Other	60,922	36,268	18,598
Amounts due to customers	**1,193,124**	**1,355,476**	**559,646**

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21. Equity

Share capital

As of 31 December 2008, authorized share capital comprised 39,835,619 common shares, of which 31,253,283 were issued and fully paid (2007: 32,835,619 common shares, of which 27,154,918 were issued and fully paid, 2006: 25,335,619 common shares, of which 25,202,009 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of 31 December 2008 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2005	**14,728,784**	**14,729**
Increase in share capital	9,448,225	9,448
Increase in share capital arising from share-based payments (Note 26)	175,000	175
Increase in share capital for placement of future share-based payments into trust	850,000	850
31 December 2006	**25,202,009**	**25,202**
Increase in share capital	1,157,407	1,157
Increase in share capital arising from share-based payments (Note 26)	145,502	146
Increase in share capital for placement of future share-based payments into trust	650,000	650
31 December 2007	**27,154,918**	**27,155**
Increase in share capital arising from issuance of GDRs	4,000,000	4,000
Increase in share capital arising from business combination	89,000	89
Increase in share capital arising from share-based payments (Note 26)	9,365	9
31 December 2008	**31,253,283**	**31,253**

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2008 net income attributable to ordinary shareholders of the Bank was GEL 3,897 (2007: GEL 72,484, 2006: GEL 26,983). As of 31 December 2008 weighted average number of ordinary shares outstanding during the year was 30,160,451 (2007: 24,503,722, 2006: 16,635,635). At 31 December 2008 the diluted number of ordinary shares was 30,160,451 (2007: 24,598,722, 2006: 18,673,356). Thus, both, the basic and diluted earnings per share amounted to GEL 0.129 (2007: GEL 2.958 and GEL 2.947, respectively, 2006: GEL 1.622 and GEL 1.445, respectively).

The 2007 dilution includes the effect of dilution of 95,000 shares deliverable to former shareholders of JSC Europace. The 2006 dilution included the effect of share-based compensation of 650,000 shares (Note 26), guaranteed share-based compensation (Note 26), HBK conversion option (Note 19), and other dilutions of 95,000 shares. There has been no transaction involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

In March 2006 the Group issued 11,640 shares in exchange for 25% equity interest in an existing subsidiary Georgian Leasing Company LLC.

In November and December 2006 8,880,207 shares of the Bank in the form of GDRs were sold on the London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,440,207 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Each GDR represents 1 ordinary share of the Bank. Bank of New York acts as a depository for these shares.

On 2 August 2007 the Bank transferred 650,000 shares in the form of GDRs to Abacus Corporate Trustee Limited.

On 18 August 2007 the Bank converted the convertible loan from HBK Semper Augustus for GEL 37,158 to equity and accordingly issued 1,157,407 shares in the exchange (Note 19).

In February of 2008 the Bank offered four million new ordinary shares in the form of global depositary receipts ("GDRs"), each GDR representing one ordinary share of the Bank. The Bank sold the four million (4,000,000) new ordinary shares in the form of GDRs at a price of US$25 per GDR. The Offering raised gross proceeds of US$100 million or equivalent of GEL 150,594. Share offering cost from this transaction amounted to GEL 357. An additional 89,000 shares were issued in 2008 arising from the agreement in relation to the 2005 acquisition of Europace.

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21. Equity (Continued)

Treasury shares

Treasury shares of GEL 890 as of 31 December 2008 comprise the Bank's shares owned by its subsidiaries (2007: GEL 237, 2006: GEL 154). Purchases and sales of treasury shares were conducted by the Bank's subsidiaries in the open market: JSC Galt and Taggart Securities, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

Treasury shares amounting to GEL 1,128 as of 31 December 2008 (2007: GEL 1,500, 2006: GEL 850) are kept by the Bank's custodian -Abacus Corporate Trustee Limited.

During the year ended 31 December 2008, 19,933 ordinary shares of GEL 20 par value and additional paid-in capital of GEL 470 have been granted as compensation to top management (2007: GEL 146 at par value and additional paid-in capital of GEL 948, 2006: GEL 175 at par value and additional paid-in capital of GEL 402).

Dividends

No dividends were declared nor paid during 2008 and 2007. In April 2006 the Group declared dividends of GEL 776 in respect of 2005 financial results being Georgian Lari 0.05 per share.

Other reserves

	Revaluation reserve for property and equipment and investment properties	*Unrealised gains (losses) on investment securities available-for-sale*	*Foreign currency translation reserve*	*Total*
At 1 January 2006	**5,369**	**–**	**–**	**5,369**
Depreciation of revaluation reserve, net of tax	(112)	–	–	(112)
At 31 December 2006	**5,257**	**–**	**–**	**5,257**
Revaluation of buildings and Investment properties	70,893	–	–	70,893
Tax effect of revaluation of buildings	(10,634)	–	–	(10,634)
Depreciation of revaluation reserve, net of tax	(112)	–	–	(112)
Net unrealised gains on available-for-sale investment securities	–	3,340	–	3,340
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	(2,481)	–	(2,481)
Minority interest share in revaluation of property and equipment	(964)	–	–	(964)
Currency translation differences	–	–	2,055	2,055
At 31 December 2007	**64,440**	**859**	**2,055**	**67,354**
Revaluation of buildings	(10,455)	–	–	(10,455)
Tax effect of revaluation of buildings	1,659	–	–	1,659
Depreciation of revaluation reserve, net of tax	(1,252)	–	–	(1,252)
Net unrealised gains on available-for-sale investment securities	–	(8,157)	–	(8,157)
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	(513)	–	(513)
Currency translation differences	(18)	–	(22,417)	(22,435)
At 31 December 2008	**54,374**	**(7,811)**	**(20,362)**	**26,201**

21. Equity (Continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties

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

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Unrealised gains (losses) on investment securities available-for-sale
This reserve records fair value changes on investments available-for-sale.

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

22. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

As of 31 December 2008, 2007 and 2006 the Group's financial commitments and contingencies comprised the following:

	2008	*2007*	*2006*
Credit-related commitments			
Undrawn loan facilities	90,023	39,962	44,337
Letters of credit	32,547	23,130	33,802
Guarantees	304,906	145,627	77,198
	427,476	**208,719**	**155,337**
Operating lease commitments			
Not later than 1 year	5,874	6,200	2,774
Later than 1 year but not later than 5 years	12,832	12,232	9,490
Later than 5 years	5,993	5,902	8,417
	24,699	**24,334**	**20,681**
Capital expenditure commitments	**19,851**	**2,623**	**1,129**
Less – Provisions (Note 17)	(4,263)	(1,003)	(672)
Less – Cash held as security against letters of credit and guarantees (Note 20)	(70,441)	(26,374)	(7,867)
Financial commitments and contingencies, net	**397,322**	**208,299**	**168,608**

As of 31 December 2008 the capital expenditures represented the commitment for purchase of property GEL 2,132 equipment of GEL 4,721 and software and other intangible assets of GEL 12,998. As of 31 December 2007 the capital expenditures represented the commitment for purchase of property GEL 1,028, equipment of GEL 698 and software and other intangible assets of GEL 897. As of 31 December 2006 the capital expenditure commitments represent the commitment for purchase of property of GEL 533, equipment of GEL 348, and software of GEL 248.

23. Net Fee and Commission Income

	2008	*2007*	*2006*
Settlements operations	33,659	25,488	15,074
Guarantees and letters of credit	8,625	7,548	4,713
Cash operations	6,947	6,079	4,257
Brokerage service fees	2,626	3,448	2,632
Advisory	2,032	215	178
Currency conversion operations	1,766	1,284	824
Other	7,848	4,296	461
Fee and commission income	**63,503**	**48,358**	**28,139**
Insurance brokerage service fees	(5,965)	(2,103)	–
Settlements operations	(3,974)	(2,692)	(1,912)
Guarantees and letters of credit	(2,038)	(1,127)	(1,257)
Currency conversion operations	(430)	(162)	(81)

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Cash operations	(564)	(253)	(158)
Other	(563)	(273)	(45)
Fee and commission expense	**(13,534)**	**(6,610)**	**(3,453)**
Net fee and commission income	**49,969**	**41,748**	**24,686**

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended December 31, 2008, 2007 and 2006 comprised:

	2008	*2007*	*2006*
Life insurance contracts premium written	3,456	814	345
General insurance contracts premium written, direct	53,201	35,013	11,574
Total premiums written	**56,657**	**35,827**	**11,919**
Gross change in life provision	86	93	(13)
Gross change in unearned premium provision	(6,311)	(10,366)	(1,417)
Total gross premiums earned on insurance contracts	**50,432**	**25,554**	**10,489**
Reinsurers' share of life insurance contracts premium written	(981)	(399)	(148)
Reinsurers' share of general insurance contracts premium written	(15,271)	(12,326)	(5,253)
Reinsurers' share of change in life provision	(4)	(76)	22
Reinsurers' share of change in general insurance contracts unearned premium provision	1,735	1,507	1,150
Total reinsurers' share of gross earned premiums on insurance contracts	**(14,521)**	**(11,294)**	**(4,229)**
Net insurance premiums earned	**35,911**	**14,260**	**6,260**
Life insurance claims paid	(455)	(233)	(69)
General insurance claims paid, direct	(30,175)	(9,825)	(4,079)
Total insurance claims paid	**(30,630)**	**(10,058)**	**(4,148)**
Reinsurers' share of life claims paid	351	49	66
Reinsurers' share of general claims paid	5,443	3,076	2,225
Gross change in total insurance contracts liabilities	(6,053)	(6,219)	163
Reinsurers' share of change in total insurance contracts liabilities	3,994	4,353	(133)
Net insurance claims incurred	**(26,895)**	**(8,799)**	**(1,827)**
Net insurance revenue	**9,016**	**5,461**	**4,433**

25. Salaries and Other Employee Benefits, General and Administrative Expenses

	2008	*2007*	*2006*
Salaries and bonuses	(104,039)	(64,388)	(28,454)
Social security costs	(4,728)	(11,251)	(4,862)
Salaries and other employee benefits	**(108,767)**	**(75,639)**	**(33,316)**
Occupancy and rent	(12,811)	(6,173)	(3,223)
Marketing and advertising	(12,251)	(4,767)	(2,564)
Legal and other professional services	(6,391)	(4,132)	(2,289)
Communication	(6,117)	(3,132)	(1,751)
Repairs and maintenance	(5,441)	(3,033)	(1,523)
Security	(4,951)	(2,432)	(1,592)
Operating taxes	(3,496)	(1,720)	(998)
Travel expenses	(2,948)	(1,770)	(1,072)
Insurance	(2,886)	(559)	(806)
Office supplies	(2,813)	(2,446)	(2,384)
Banking services	(2,293)	(1,533)	(645)

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Corporate hospitality and entertainment	(1,393)	(681)	(539)
Penalties	(745)	(900)	(50)
Personnel training and recruitment	(545)	(342)	(399)
Other	(3,568)	(2,544)	(814)
General and administrative expenses	**(68,649)**	**(36,164)**	**(20,649)**

Salaries and bonuses include GEL 7,820, GEL 8,992 and GEL 2,586 of the EECP costs in 2008, 2007 and 2006, respectively, associated with the existing share-based compensation scheme approved in the Group (Note 26).

26. Share-based Payments

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP").

In December 2006 Abacus Corporate Trustee Limited acting in its capacity as the trustee of the Bank's EECP resolved to award the Bank's 206,000 ordinary shares in the form of restricted GDRs to 18 executives of the Group in respect of the year ended 31 December 2005. The awards are subject to three year vesting. The Group considers 2 June 2006 as the grant date for these awards and estimates that the fair value of shares on 2 June 2006 was 12.85 Georgian Lari per share.

In February 2007 the Bank's Supervisory Board resolved to recommend to the Trustee to award 267,550 ordinary shares of the Bank in the form of restricted GDRs to the Group's 23 executives pursuant to the EECP in respect of the year ended 31 December 2006. The awards are subject to three year vesting. The Group considers 2 June 2006 as the grant date for 190,000 of the shares in the form of restricted GDRs and 16 February 2007 as the grant date for the remaining 77,550 of ordinary shares in the form of restricted GDRs. The Bank estimates that the fair value of the shares on 16 February 2007 was 45.74 Georgian Lari per share.

During 2007 the Group provided the Chairman of the Supervisory Board of the Bank with share-based compensation under the terms of the three-year service agreement signed in 2004. The total amount of compensation during 2007 under the terms of the service agreement totaled GEL 940 or 125,000 ordinary shares of the Bank. All shares are fully vested ordinary shares. The fair value of the shares at the grant date (August 18, 2004) was 3.299 Georgian Lari per share. The fair value of the shares was based on weighted average observable market prices for the shares traded at the Georgian Stock Exchange at the grant date. Total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares were to vest over a 3-year period on a monthly basis starting 18 August 2004. The remaining 100,000 shares fully vested as of 31 December 2005.

26. Share-based Payments (continued)

In August 2007 the Bank's Supervisory Board resolved to propose to the Trustee of the Bank's EECP the award of shares of the Bank in the form of restricted GDRs to the top three executives of the Bank (top two from January 1, 2008 as one resigned before 31 December 2007). Each award will vest fully, or partially, or will not vest at all, at the third anniversary of the date of the grant, depending solely on clearly defined and measurable market-based condition. The awards of each executive comprise top grant and annual grant.

Top grant is a one-time award and was given in 2007 only and its value is restricted by the 200% of the annual base salary of the respective executive in 2007. Annual grant is awarded every year during the three consecutive years' period that such executive is employed by the Bank. In 2007 its value was restricted by 100% of the annual base salary of the respective executive during the vesting period. Based on the changes approved by the Bank's Supervisory Board, the value of the annual grant in 2008 was restricted by the 200%.

In May 2008 the Bank's Supervisory Board resolved to recommend to the Trustee to award 172,000 Bank's ordinary shares in the form of restricted GDRs to the Group's 22 executives pursuant to the EECP in respect of the year ended 31 December 2007. The awards are subject to three year vesting. The Group considers 21 February 2008 as the grant date for 54,000 of the Bank of Georgia shares in the form of restricted GDRs and 6 May 2008 grant date for the remaining 118,000 of the Bank's ordinary shares in the form of restricted GDRs. The Bank estimates that the fair value of the shares on 21 February 2008 was Georgian Lari 39.72 per share and on 6 May 2008 – Georgian Lari 33.68 per share.

The Group's expense arising from EECP awards of GDRs was GEL 6,803, GEL 7,898 and GEL 2,009 for 2008, 2007 and 2006, respectively.

Based on the Bank's share price performance calculated by an independent consultant for 2008 and 2007, the Bank estimated the annual expense of share-based compensation related to 2008 annual grant equal to nil.

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The Bank estimated the annual expense of share-based compensation related to 2007 top and annual grants equal 300% of the annual base salary of each executive in 2007. Aggregate expense associated with this scheme comprised GEL 3,339 in 2007.

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the measurement date comprised Georgian Lari 39.5 per share in 2008 (2007: Georgian Lari 28.95.).

The Group's total share-based payment expenses for 2008 comprised GEL 7,820 (2007: 8,992, 2006: 2,586).

Below is the summary of the key share-based payments related data:

Ordinary shares	***2008***	***2007***	***2006***
Number of shares awarded	29,298	145,502	175,000
- Among them, to top management	9,365	145,502	175,000
Number of shares vested	16,010	145,502	175,000
Weighted average value at grant date, per share (GEL in full amount)	41.5	7.52	3.30
Value at grant date, total (GEL)	**1,214**	**1,094**	**577**
Expense recognized during the year (GEL)	**(1,017)**	**(1,094)**	**(577)**

GDRs	***2008***	***2007***	***2006***
Number of GDRs awarded	258,139	322,167	206,000
- Among them, to top management	198,139	244,617	185,000
Number of GDRs vested	282,606	-	68,660
Weighted average value at grant date, per share (GEL in full amount)	32.5	28.95	12.85
Value at grant date, total (GEL)	**8,391**	**9,328**	**2,647**
Expense recognized during the year (GEL)	**(6,803)**	**(7,898)**	**(2,009)**

All instruments	***2008***	***2007***	***2006***
Total number of equity instruments awarded	287,437	467,669	381,000
- Among them, to top management	207,504	390,119	360,000
Total number of equity instruments vested	298,615	145,502	243,660
Weighted average value at grant date, per share (GEL in full amount)	33.4	22.28	8.46
Value at grant date, total (GEL)	**9,606**	**10,422**	**3,224**
Total expense recognized during the year (GEL)	**(7,820)**	**(8,992)**	**(2,586)**

(Thousands of Georgian Lari)

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Supervisory Board is ultimately responsible for identifying and controlling risks.

Supervisory board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Audit committee

The Audit Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. It is an independent body and is directly monitored by the Supervisory Board.

Bank treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Introduction (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

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27. Risk Management (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2008	Gross maximum exposure 2007	Gross maximum exposure 2006
Cash and cash equivalents (excluding cash on hand)	7	233,128	312,060	68,966
Amounts due from credit institutions	8	99,633	154,560	65,475
Loans to customers	9	2,039,022	1,675,681	684,842
Finance lease receivables	10	41,605	46,674	9,091
Investment securities:				
-Available-for-sale	11	33,737	42,387	9,887
-Held-to-maturity	11	22,845	192,464	187,244
		2,469,970	**2,423,826**	**1,025,505**
Financial commitments and contingencies	22	397,322	208,299	168,608
Total credit risk exposure		**2,867,292**	**2,632,125**	**1,194,113**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Group's credit rating system.

		Neither past due nor impaired				
	Notes	High grade 2008	Standard grade 2008	Sub-standard grade 2008	Past due or individually impaired 2008	Total 2008
Amounts due from credit institutions	8	99,633	–	–	–	99,633
Loans to customers:	9					
Corporate lending		639,988	112,558	23,428	268,985	1,044,959
Consumer lending		381,299	42,126	11,576	61,196	496,197
Residential mortgages		337,445	13,477	1,868	38,816	391,606
Micro-loans		129,666	4,894	5,182	11,571	151,313
Gold Pawn Loans		46,374	–	–	–	46,374
Other		713	2,514	9,414	2,533	15,174
		1,535,485	**175,569**	**51,468**	**383,101**	**2,145,623**
Finance lease receivables	10	12,201	2,232	204	29,131	43,768
Investment securities:						
Available-for-sale	11	33,737	–	–	–	33,737
Held-to-maturity	11	22,845	–	–	–	22,845
		56,582	**–**	**–**	**–**	**56,582**
Total		**1,703,901**	**177,801**	**51,672**	**412,232**	**2,345,606**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

	Notes	*Neither past due nor impaired* High grade 2007	Standard grade 2007	Sub-standard grade 2007	Past due or individually impaired 2007	Total 2007
Amounts due from credit institutions	8	154,560	–	–	–	154,560
Loans to customers:	9					
Corporate lending		855,112	32,539	110	48,907	936,668
Consumer lending		242,844	64,561	2,793	20,884	331,082
Residential mortgages		224,065	7,486	71	4,775	236,397
Micro-loans		147,052	1,419	59	3,906	152,436
Gold Pawn Loans		28,158	–	–	–	28,158
Other		2,062	15,849	272	1,686	19,869
		1,499,293	**121,854**	**3,305**	**80,158**	**1,704,610**
Finance lease receivables	10	6,430	2,865	234	37,961	47,490
Investment securities:	11					
Available-for-sale		42,387	–	–	–	42,387
Held-to-maturity		192,464	–	–	–	192,464
		234,851	**–**	**–**	**–**	**234,851**
Total		**1,895,134**	**124,719**	**3,539**	**118,119**	**2,141,511**

	Notes	*Neither past due nor impaired* High grade 2006	Standard grade 2006	Sub–standard grade 2006	Past due or individually impaired 2006	Total 2006
Amounts due from credit institutions	9	65,475	–	–	–	65,475
Loans to customers	10					
Corporate lending		342,632	636	2	60,036	403,306
Micro–loans		98,984	467	22	1,896	101,369
Consumer lending		62,178	22,616	858	6,249	91,901
Residential mortgages		77,157	883	–	4,267	82,307
Gold Pawn Loans		26,979	–	–	–	26,979
		673,405	**24,602**	**882**	**72,448**	**771,337**
Debt investment securities	12					
Available–for–sale		9,887	–	–	–	9,887
Held–to–maturity		187,244	–	–	–	187,244
		197,131	**–**	**–**	**–**	**197,131**
Total		**870,536**	**24,602**	**882**	**72,448**	**968,468**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

A financial asset that has neither been in past due more than 30 days nor individually impaired is assessed as a financial asset with High Grade;

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 30 is assessed as a financial asset with Standard Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as of reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2008	***31 to 60 days 2008***	***61 to 90 days 2008***	***More than 90 days 2008***	***Total 2008***
Loans to customers:					
Corporate lending	12,107	4,937	6,990	15,118	39,152
Micro-loans	2,751	270	67	196	3,284
Consumer lending	21,375	764	336	2,469	24,944
Residential mortgages	6,887	6	–	86	6,979
Other	256	712	2,160	3,128	6,256
Finance lease receivables	–	46	–	24,380	24,426
Total	**43,376**	**6,735**	**9,553**	**45,377**	**105,041**

	Less than 30 days 2007	***31 to 60 days 2007***	***61 to 90 days 2007***	***More than 90 days 2007***	***Total 2007***
Amounts due from credit institutions	–	–	–	564	564
Loans to customers:					
Commercial lending	22,549	1,774	80	4,371	28,774
Micro-loans	2,175	–	–	–	2,175
Consumer lending	10,008	58	40	1,180	11,286
Residential mortgages	2,640	47	31	–	2,718
Other	567	616	411	–	1,594
Finance lease receivables	720	34,599	17	867	36,203
Total	**38,659**	**37,094**	**579**	**6,982**	**83,314**

	Less than 30 days 2006	***31 to 60 days 2006***	***61 to 90 days 2006***	***More than 90 days 2006***	***Total 2006***
Loans to customers					
Corporate lending	19,805	–	42	2,285	22,132
Micro-loans	878	8	11	4	901
Consumer lending	3,371	40	20	41	3,472
Residential mortgages	1,881	–	11	2	1,894
Total	**25,935**	**48**	**84**	**2,332**	**28,399**

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2008	*2007*	*2006*
Loans to customers:			
Commercial lending	384,404	10,651	4,964
Micro loans	5,952	638	221
Consumer lending	19,384	3,221	67
Residential mortgages	6,193	5,625	184
Other	8,194	762	–
Financial lease receivables	3,173	–	–
Total	**427,300**	**20,897**	**5,436**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 150 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

The geographical concentration of Group's assets and liabilities is set out below:

	2008				*2007*				*2006*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:												
Cash and cash equivalents	153,236	208,997	35,358	397,591	105,393	207,049	93,328	405,770	40,370	61,790	5,885	108,045
Amounts due from credit institutions	64,081	3,414	32,138	99,633	140,852	609	13,099	154,560	62,602	1,166	1,707	65,475
Loans to customers	2,008,652	_	30,370	2,039,022	1,452,649	–	223,032	1,675,681	684,842	–	–	684,842
Finance lease receivables	37,405	_	4,200	41,605	46,674	–	–	46,674	9,091	–	–	9,091
Investment securities												
- available-for-sale	33,420	201	116	33,737	6,234	231	35,922	42,387	9,819	67	1	9,887
- held-to-maturity	22,845	_	_	22,845	184,201	–	8,263	192,464	187,244	–	–	187,244
All other assets	586,214	1,210	37,050	624,474	396,938	17,281	21,856	436,075	136,866	8,062	3,814	148,742
	2,905,853	**213,822**	**139,232**	**3,258,907**	**2,332,941**	**225,170**	**395,500**	**2,953,611**	**1,130,834**	**71,085**	**11,407**	**1,213,326**
Liabilities:												
Amounts due to credit institutions	129,091	1,080,179	7,452	1,216,722	104,731	791,054	6,010	901,795	42,773	181,608	–	224,381
Amounts due to customers	1,152,244	2,477	38,403	1,193,124	1,085,505	–	269,971	1,355,476	559,646	–	–	559,646
All other liabilities	118,978	7,216	4,018	130,212	116,455	6,673	15,221	138,349	46,633	6,013	1,795	54,441
	1,400,313	**1,089,872**	**49,873**	**2,540,058**	**1,306,691**	**797,727**	**291,202**	**2,395,620**	**649,052**	**187,621**	**1,795**	**838,468**
Net balance sheet position	**1,505,540**	**(876,050)**	**89,359**	**718,849**	**1,026,250**	**(572,557)**	**104,298**	**557,991**	**481,782**	**(116,536)**	**9,612**	**374,858**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a stand-alone basis, based on certain liquidity ratios established by the NBG. As at 31 December, these ratios were as follows:

	2008	***2007, %***	***2006, %***
Average liquidity ratio for the year	31.4%	47.5%	30.9%
Maximum liquidity ratio	48.6%	92.7%	65.7%
Minimum liquidity ratio	20.8%	19.5%	19.6%

Average liquidity ratio is calculated on stand-alone bases for JSC Bank of Georgia as annual average (arithmetic mean) of daily liquidity ratios computed as percentage of liquidity assets in liabilities determined by National Bank of Georgia as follows:

Liquid assets - comprise cash, cash equivalents and other assets that have character to be immediately converted into cash. Those assets include investment securities issued by Georgian Government plus Certificates of Deposit issued by NBG up to 10% of liabilities used in calculation of average liquidity ratio and not including amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (Continued)

countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits, amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities - comprise sum of total liabilities and off-balance sheet commitments not including subordinated loans, those commitments that are to be exercised or settled later than six month from reporting date, financial guarantees and letters of credit fully collateralized by cash covers in the bank, commitments due to dealing operations with foreign currencies. Maximum and minimum rates of liquidity ratio are taken from historical data of appropriate reporting years.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2008	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	291,471	131,625	922,928	259,148	1,605,172
Amounts due to customers	869,050	266,412	74,947	4,712	1,215,121
Debt securities issued and other liabilities	1,373	90	5	–	1,468
Total undiscounted financial liabilities	**1,161,894**	**398,127**	**997,880**	**263,860**	**2,821,761**

Financial liabilities As at 31 December 2007	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	128,421	192,214	679,129	201,732	1,201,496
Amounts due to customers	1,006,758	302,902	77,374	3,785	1,390,819
Debt securities issued and other liabilities	5,130	4,153	4,220	149	13,652
Total undiscounted financial liabilities	**1,140,309**	**499,269**	**760,723**	**205,666**	**2,605,967**

Financial liabilities As at 31 December 2006	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	15,817	115,239	70,207	63,261	264,524
Amounts due to customers	441,049	99,614	24,888	1,260	566,811
Debt securities issued	–	1,494	–	–	1,494
Total undiscounted financial liabilities	**456,866**	**216,347**	**95,095**	**64,521**	**832,829**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2008	187,311	94,245	166,843	23,627	472,026
2007	85,305	76,578	55,364	18,429	235,676
2006	114,848	36,268	14,482	11,549	177,147

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 20.

27. Risk Management (continued)

Market risk

(Thousands of Georgian Lari)

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at balance sheet date. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2008 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. During 2008, 2007 and 2006 sensitivity analysis did not reveal significant potential effect on Group Equity.

Currency	***Increase in basis points 2008***	***Sensitivity of net interest income 2008***	***Sensitivity of equity 2008***
UAH	0.75%	–	72
EUR	1.50%	79	–
USD	0.55%	3,434	–

Currency	***Decrease in basis points 2008***	***Sensitivity of net interest income 2008***	***Sensitivity of equity 2008***
UAH	-1.25%	–	(121)
EUR	-1.50%	(79)	–
USD	-0.55%	(3,434)	–

Currency	***Increase in basis points 2007***	***Sensitivity of net interest income 2007***	***Sensitivity of equity 2007***
UAH	0.75%	–	267
EUR	0.75%	(71)	–
USD	0.75%	(3,097)	–

Currency	***Decrease in basis points 2007***	***Sensitivity of net interest income 2007***	***Sensitivity of equity 2007***
UAH	-1.25%	–	(445)
EUR	-1.50%	142	–
USD	-1.25%	5,393	–

Currency	***Increase in basis points 2006***	***Sensitivity of net interest income 2006***	***Sensitivity of equity 2006***
UAH	0.50%	-	22
EUR	1.50%	(178)	(178)
USD	0.50%	(611)	(611)

27. Risk Management (continued)

Market risk (continued)

Currency	***Decrease in basis points***	***Sensitivity of net***	***Sensitivity of equity***

(Thousands of Georgian Lari)

	2006	interest income 2006	2006
UAH	-1.00%	-	(44)
EUR	-0.50%	59	59
USD	-1.00%	1,221	1,221

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at balance sheet date on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During 2008, 2007 and 2006 sensitivity analysis did not reveal significant potential effect on Group Equity.

Currency	Change in currency rate in % 2008	Effect on profit before tax 2008	Effect on equity 2008	Change in currency rate in % 2007	Effect on profit before tax 2007	Effect on equity 2007	Change in currency rate in % 2006	Effect on profit before tax 2006	Effect on equity 2006
EUR	14.9%	(832)	–	4.6%	104	–	4.2%	(2)	–
GBP	24.9%	17	–	5.0%	(137)	–	7.4%	(9)	–
RUR	0.3%	(6)	–	0.1%	24	–			
UAH	2.8%	8	–	0.7%	(38)	–	0.7%	8	–
USD	9.2%	(1,216)	–	3.5%	(2,450)	–	3.6%	(327)	–

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

The effect on (loss) profit before tax for one year and on equity, is as follows:

	Effect on net interest income	Effect on equity
2008	(34,546)	–
2007	(36,527)	–
2006	52,521	–

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country, and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. During the year there have been major events that have an effect on the Bank's operations – the military conflict in August 2008 involving Georgia, the Russian Federation and South Ossetia, and the financial crisis which significantly affected global economies from last quarter of 2008. Though no direct damage has been sustained by the Bank during the military conflict, it had caused significant damage to the Georgian economy and the Fitch and S&P country ratings were downgraded. The ongoing global financial crisis and the military conflict have resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Georgia. The Georgian Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Georgian banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

28. Fair Values of Financial Instruments

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

	Carrying value 2008	*Fair value 2008*	*Unrecognised loss 2008*	*Carrying value 2007*	*Fair value 2007*	*Unrecognised loss 2007*	*Carrying value 2006*	*Fair value 2006*	*Unrecognised loss 2006*
Financial assets									
Cash and cash equivalents	397,591	397,591	–	405,770	405,770	–	108,045	108,045	–
Amounts due from credit institutions	99,633	99,633	–	154,560	154,560	–	65,475	65,475	–
Loans to customers	2,039,022	1,991,449	(47,573)	1,675,681	1,675,681	–	684,842	684,842	–
Finance lease receivables	41,605	41,605	–	46,674	46,674	–	9,091	9,091	–
Investment securities:									
- available-for-sale	33,737	33,737	–	42,387	42,387	–	9,887	9,887	–
- held-to-maturity	22,845	22,845	–	192,464	191,572	(892)	187,244	187,244	–
Financial liabilities									
Amounts due to credit institutions	1,216,722	1,216,722	–	901,795	901,795	–	224,381	224,381	–
Amounts due to credit institutions	1,193,124	1,201,746	(8,622)	1,355,476	1,355,476	–	559,646	559,646	–
Debt securities issued	5	5	–	4,993	4,993	–	1,073	1,073	–
Total unrecognised change in unrealised fair value			**(56,195)**			**(892)**			–

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

Assets for which fair value approximates carrying value

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

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (Continued)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2008	*Valuation techniques – market observable inputs 2008*	*Valuation techniques – non-market observable inputs 2008*	*Total 2008*
Financial assets				
Investment securities – available-for-sale	17,644	16,093	–	33,737
Other assets – trading securities owned	92	–	–	92
	17,736	**16,093**	–	**33,829**

	Quoted market price 2007	*Valuation techniques – market observable inputs 2007*	*Valuation techniques – non-market observable inputs 2007*	*Total 2007*
Financial assets				
Investment securities – available-for-sale	36,770	5,617	–	42,387
Other assets – trading securities owned	6,342	–	–	6,342
	43,112	**5,617**	**–**	**48,729**

	Quoted market price 2006	*Valuation techniques – market observable inputs 2006*	*Valuation techniques – non-market observable inputs 2006*	*Total 2006*
Financial assets				
Investment securities – available-for-sale	4,353	5,534	–	9,887
	4,353	**5,534**	**–**	**9,887**

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2008			*2007*			*2006*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets									
Cash and cash equivalents	397,591	–	397,591	405,770	–	405,770	108,045	–	108,045
Amounts due from credit institutions	87,205	12,428	99,633	153,893	667	154,560	62,276	3,199	65,475
Loans to customers	897,167	1,141,855	2,039,022	929,246	746,435	1,675,681	410,545	274,297	684,842
Finance lease receivables	33,375	8,230	41,605	31,225	15,449	46,674	241	8,850	9,091
Investment securities:									
– available–for–sale	33,737	–	33,737	7,787	34,600	42,387	9,887	–	9,887
– held–to–maturity	22,845	–	22,845	176,466	15,998	192,464	159,641	27,603	187,244
Total	**1,471,920**	**1,162,513**	**2,634,433**	**1,704,387**	**813,149**	**2,517,536**	**750,635**	**313,949**	**1,064,584**
Financial liabilities									
Amounts due to credit institutions	402,094	814,628	1,216,722	146,815	754,980	901,795	100,248	124,133	224,381
Amounts due to customers	1,124,598	68,526	1,193,124	1,280,911	74,565	1,355,476	536,647	22,999	559,646
Debt securities issued and other liabilities	1,463	5	1,468	9,283	4,369	13,652	1,073	–	1,073
Total	**1,528,155**	**883,159**	**2,411,314**	**1,437,009**	**833,914**	**2,270,923**	**637,968**	**147,132**	**785,100**
Net	**(56,235)**	**279,354**	**223,119**	**267,378**	**(20,765)**	**246,613**	**112,667**	**166,817**	**279,484**

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

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

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

As of 31 December 2008 deposits amounted to GEL 1,193,124 (2007: GEL 1,355,476, 2006: GEL 559,646) and represented 47% (2007: 57%, 2006: 67%) of Group's total liabilities. These borrowings continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As of 31 December 2008 amounts owed to other credit institutions amounted to GEL 1,216,722 (2007: GEL 901,795, 2006: GEL 224,381) and represented 48% (2007: 38%, 2006: 27%) of total liabilities.

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

(Thousands of Georgian Lari)

30. Related Party Disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2008			*2007*			*2006*		
	Parent	*Associates*	*Key management personnel*	*Parent*	*Associates*	*Key management personnel*	*Parent*	*Associates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**13,598**	**520**	**–**	**6,010**	**312**	–	**3,272**	**1,143**
Loans issued during the year	1,339	12,085	8,229	–	14,237	507	–	11,494	591
Loan repayments during the year	(1,074)	(9,709)	(3,375)	–	(6,649)	(299)	–	(8,756)	(1,422)
Other movements	–	5,994	208	–	–	–	–	–	–
Loans outstanding at 31 December, gross	**265**	**21,968**	**5,582**	**–**	**13,598**	**520**	**–**	**6,010**	**312**
Less: allowance for impairment at 31 December		(3,181)	(1,064)	–	(324)	(10)	–	(185)	(6)
Loans outstanding at 31 December, net	**265**	**18,787**	**4,518**	**–**	**13,274**	**510**	–	**5,825**	**306**
Interest income on loans	–	2,125	468	–	1,102	58	–	634	10
Loan impairment charge	–	3,099	120	–	139	4	–	(55)	17
Deposits at 1 January	**12,733**	**4,485**	**626**	**11,281**	**2,944**	**7,252**	–	**1,751**	**113**
Deposits received during the year	–	79,356	53,081	1,452	95,488	12,038	11,281	36,246	13,672
Deposits repaid during the year	–	(83,638)	(35,450)	–	(93,947)	(18,664)	–	(35,053)	(6,533)
Other movements	–	(26)	67	–	–	–	–	–	–
Deposits at 31 December	**12,733**	**177**	**18,324**	**12,733**	**4,485**	**626**	**11,281**	**2,944**	**7,252**
Current accounts at 31 December									
Interest expense on deposits	–	2	14	746	178	97	483	147	157
Other income	767	–	32	–	–	852	–	–	–

Compensation of key management personnel was comprised of the following:

	2008	**2007**	**2006**
Salaries and other benefits	9,975	16,104	3,723
- Among them, termination benefits	10	4,876	-
Share-based payments compensation	7,820	8,992	2,586
- Among them, termination benefits	–	1,944	-
Social security costs	94	4,124	282
Recruitment costs	28	20	24
Total key management compensation	**17,917**	**29,240**	**6,615**

The number of key management personnel as 31 December 2008 was 105 (2007: 70, 2006: 57).

(Thousands of Georgian Lari)

31. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBG in supervising the Bank.

During the past year, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As of 31 December 2008, 2007 and 2006 the Bank's capital adequacy ratio on this basis was as follows:

	2008	*2007*	*2006*
Core capital	573,146	368,959	307,620
Supplementary capital	162,902	162,867	87,599
Less: Deductions from capital	(269,427)	(166,230)	(17,236)
Total regulatory capital	**466,621**	**365,596**	**377,983**
Risk-weighted assets	**3,458,133**	**2,796,443**	**1,325,114**
Total capital adequacy ratio	**13.5%**	**13.1%**	**28.5%**

Regulatory capital consists of Core capital, which comprises share, additional paid-up capital, retained earnings including current year profit, foreign currency translation and minority interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG. The other component of regulatory capital is Supplementary capital, which includes subordinated long-term debt preference shares and revaluation reserves.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2008, 2007 and 2006, follows:

	2008	*2007*	*2006*
Tier 1 capital	651,826	464,516	366,177
Tier 2 capital	232,840	159,914	57,534
Less: Deductions from capital	(249,373)	(214,615)	(37,124)
Total regulatory capital	**635,293**	**409,815**	**386,587**
Risk-weighted assets	**2,560,696**	**1,859,330**	**804,117**
Total capital ratio	24.8%	22.0%	45.5%
Tier 1 capital ratio	25.5%	25.0%	48.1%
Minimum capital adequacy ratio	**8%**	**8%**	**8%**

(Thousands of Georgian Lari)

32. Events After the Balance Sheet Date

During the 1st quarter of 2009 the Bank obtained long-term unsecured funding from the European Bank for Reconstruction and Development ("EBRD") and International Financial Corporation ("IFC"), with a total combined nominal value of USD 200 million, comprising of the following facilities:

IFC funded

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

EBRD funded

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

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