U.S.$200,000,000

9.0% Loan Participation Notes due 2012
issued by, but with limited recourse to,
BG Finance B.V.
for the sole purpose of financing a loan to

Joint Stock Company Bank of Georgia

Issue Price: 100.0%

BG Finance B.V., a private company with limited liability incorporated under the laws of The Netherlands (the "**Issuer**"), is issuing an aggregate principal amount of U.S.$200,000,000 9.0% Loan Participation Notes due 2012 (the "**Notes**") to be issued by, but with limited recourse to, the Issuer for the sole purpose of financing a loan (the "**Loan**") to Joint Stock Company Bank of Georgia ("**Bank of Georgia**"), a joint stock company incorporated in the country of Georgia (located in the Caucasus) ("**Georgia**"), pursuant to a loan agreement dated 6 February 2007 (the "**Loan Agreement**") between the Issuer (in its capacity as Lender) and Bank of Georgia. The Notes will be constituted by, be subject to, and have the benefit of, a trust deed to be dated 8 February 2007 (the "**Trust Deed**") between the Issuer and The Bank of New York as trustee (the "**Trustee**") for the benefit of the holders of the Notes (the "**Noteholders**"). In the Trust Deed, the Issuer will charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer will assign absolutely certain of its administrative rights under the Loan Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) (less any amount in respect of Reserved Rights, as defined in the Trust Deed) actually received from Bank of Georgia by, or for the account of, the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on Bank of Georgia's covenant to pay under the Loan Agreement and on the credit and financial standing of Bank of Georgia in respect of the payment obligations of the Issuer under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to Bank of Georgia except through action by the Trustee under any of the Security Interests (as defined in the Terms and Conditions of the Notes).

On each Interest Payment Date (being 8 February and 8 August in each year commencing on 8 August 2007 and ending on 8 February 2012), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement. Under the Loan Agreement, the applicable rate of interest is 9.0% per annum, which accrues on the outstanding principal amount of the Loan in accordance with the terms of the Loan Agreement. Subject to the exceptions described herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of The Netherlands. The Loan may not be voluntarily repaid except in accordance with the terms of the Loan Agreement.

Applications have been made to the UK Financial Services Authority (the "**UK Listing Authority**"), in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the Gilt Edged and Fixed Interest Market (the "**Regulated Market**") of the London Stock Exchange. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Admission to the Official List of the UK Listing Authority, together with admission to trading on the Regulated Market, constitutes official listing on a stock exchange. The Regulated Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC (the "**Investment Services Directive**").

The Notes will be issued in fully registered form in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof, in each case without interest coupons attached. The Notes will initially be represented by interests in a permanent global certificate in fully registered form (the "**Global Certificate**") without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), on 8 February 2007 (the "**Issue Date**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear or Clearstream, Luxembourg and their respective participants. The Global Certificate will only be exchangeable for definitive certificates evidencing holdings of the Notes (the "**Definitive Certificates**") in the limited circumstances described under "Summary of the Provisions Relating to the Notes in Global Form".

This Prospectus (including the financial statements) comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with respect to Bank of Georgia, the Issuer, the Loan and the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 9 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE OF THE UNITED STATES TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. THE NOTES MAY NOT BE REOFFERED, RESOLD, PLEDGED, EXCHANGED OR OTHERWISE TRANSFERRED EXCEPT IN TRANSACTIONS EXEMPT FROM OR NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAWS.

Lead Manager

Merrill Lynch International

The date of this Prospectus is 6 February 2007

Each of Bank of Georgia and the Issuer accepts responsibility for all information contained in this Prospectus. To the best of the knowledge of Bank of Georgia and the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the Lead Manager nor the Trustee nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Lead Manager, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Lead Manager, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

Bank of Georgia obtained the market data used in "Overview of Bank of Georgia", "Risk Factors", "Description of Business", "Banking Sector and Banking Regulation in Georgia" and "Annex A—Georgia: Country Description" from internal surveys, industry sources, government sources and other publicly available information, including press releases. The main source for market information used in this Prospectus is derived from official data published by the National Bank of Georgia (the "**NBG**"). Bank of Georgia obtained Georgian macroeconomic data and foreign exchange data principally from the Department of Statistics of Georgia, Ministry of Economic Development of Georgia and the International Monetary Fund (the "**IMF**"). Market information on the price of the Bank's ordinary shares was obtained from the Georgian Stock Exchange. Bank of Georgia and the Issuer accept responsibility for having accurately reproduced information obtained from industry publications or public sources, and, so far as Bank of Georgia and the Issuer are aware and have 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, prospective investors should keep in mind that Bank of Georgia and the Issuer have not independently verified information they have obtained from industry and government sources. Certain market share information and other statements in this Prospectus and 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. See "Risk Factors—Other Risks—Information Has Not Been Independently Verified".

The contents of Bank of Georgia's website do not form any part of this Prospectus.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer, Bank of Georgia, the Trustee and the Lead Manager to inform themselves about and to observe such restrictions. In particular, the Notes have not been and will not be, registered under the Securities Act. The Notes are being offered outside the United States in reliance on Regulation S under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "Subscription and Sale" and "Summary of Provisions Relating to the Notes in Global Form".

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of Bank of Georgia and the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. None of Bank of Georgia, the Issuer, the Lead Manager or the Trustee or any of their directors, affiliates, advisers or agents is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, Bank of Georgia, the Trustee or the Lead Manager or any of their directors, affiliates, advisers or agents. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall imply that there has been no change in the business and affairs of the Issuer or Bank of Georgia since the date hereof or that the information herein is correct as of any time subsequent to its date. None of the Issuer or Bank of Georgia intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan. Without limitation to the generality of the foregoing, the contents of Bank of Georgia's website as of the date hereof or as of any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

Unless otherwise specified or the context so requires, all references to the "**Bank**" refer to Bank of Georgia and its consolidated subsidiaries.

IN CONNECTION WITH THE ISSUE OF THE NOTES, MERRILL LYNCH INTERNATIONAL (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

CONTENTS

OVERVIEW OF BANK OF GEORGIA

This overview may not contain all the information that may be important to prospective purchasers of the Notes. Prospective purchasers of the Notes should read this entire Prospectus, including the more detailed information regarding Bank of Georgia's business and the Financial Statements included elsewhere in this Prospectus. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

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.

As of 30 November 2006, Bank of Georgia was the largest bank in Georgia based on total equity, total assets (with a 27.8% market share) and total loans (with a 25.3% market share) and was the second largest bank in Georgia based on total deposits (with a 23.1% market share), each ranking and market share according to information published by the NBG based on standalone financial information filed with NBG by Georgian banks. These market shares compare to a 17.8% market share by total assets, an 18.2% market share by total loans and a 19.0% market share by total deposits as of 31 December 2005. Bank of Georgia is the successor to state-owned Binsotsbank, which was privatised in 1994. Bank of Georgia's headquarters are located in Tbilisi.

The Bank's two principal business areas are retail banking and corporate and investment banking. In addition, the Bank, through its subsidiaries, provides insurance, asset and wealth management and card processing services and engages in merchant banking activities.

The Bank is a leader in the Georgian retail banking market, serving approximately 405,000 retail clients through its branch network and electronic distribution channels as of 30 November 2006. The Bank's retail banking activities include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans, POS loans and overdrafts), current and savings accounts and term deposits, credit cards and other bank card products and services, ATM services, Internet and SMS banking, utilities and other recurring payments, money transfers and remittances, standing orders, direct deposit services for wages and other monetary entitlements and other retail banking services. As of 30 November 2006, Bank of Georgia had the second largest branch network in Georgia, with 99 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, and the largest ATM network in Georgia, comprising 119 ATMs.

The Bank is also a leader in the Georgian corporate and investment banking markets. The Bank's corporate and investment 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, leasing, corporate finance advisory and capital-raising 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 provides corporate finance advisory services on mergers and acquisitions and investment banking services related to capital raisings through its subsidiary, Galt & Taggart Securities.

The Bank, through its wholly-owned insurance subsidiary BCI, is a leading insurance provider in Georgia and had an approximately 20.0% market share based on gross written premiums as of 30 September 2006 (compared to a 14.5% market share as of 31 December 2005), according to information published by the State Insurance Supervision Service of Georgia. In December 2006, BCI acquired a 100.0% equity interest in JSC

Insurance Company Aldagi ("**Aldagi**"), a leading insurance company in Georgia. As a result of this transaction, BCI's market share in Georgia as of 30 September 2006 on a pro forma basis exceeds 40.0%.

The Bank's asset and wealth management business consists of private banking services provided under the Bank of Georgia brand, pension fund management and administration services conducted under the BCI brand and broker-dealer, custodial and asset management services provided by Galt & Taggart Securities. On 23 October 2006, the Bank established Galt and Taggart Securities (Ukraine) LLC ("**GTU**") in Ukraine. GTU is engaged in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, intends to engage in asset management.

As of 30 September 2006, the Bank's total assets were GEL 856.7 million (U.S.$493.5 million), the Bank's total equity was GEL 137.1 million (U.S.$79.0 million) and for the nine months ended 30 September 2006, the Bank's net income was GEL 17.3 million (U.S.$10.0 million). In November 2006, the Bank raised net proceeds of U.S.$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new Bank of Georgia ordinary shares in the form of global depositary receipts ("**GDRs**") pursuant to an initial public offering to institutional investors.

Bank of Georgia was awarded the *Best Bank In Georgia Award for Excellence* in each of 2005 and 2006 by *Euromoney*, a leading capital markets publication, and *The Bank of the Year 2006 Award for Georgia* by *The Banker* and was named the *Best Trade Finance Bank in Georgia in 2007* by *Global Finance Magazine*.

Competitive Strengths

Management believes that the Bank has the following competitive strengths:

- a diversified product offering;
- a widely-recognised retail brand and franchise;
- a wide distribution network;
- strong co-branding and distribution relationships;
- experienced management; and
- access to capital.

Strategy

Management's objective is to further develop the Bank into a leading universal bank and to increase its market share in all sectors of the Georgian financial services industry, including the retail banking, corporate and investment banking, insurance and asset and wealth management sectors. The key elements of the Bank's business strategy are:

- strengthening its leading position in the Georgian banking market;
- growing its retail banking business;
- diversifying its funding base and loan portfolio;
- improving and cross-selling corporate and investment banking products and services;
- improving risk management policies and procedures;
- improving internal operating systems and utilising new technologies; and
- actively considering regional expansion opportunities.

Risk Factors

An investment in the Notes involves a high degree of risk. Some of these risks are those relating to the Bank's business and industry and include risks associated with:

- management of growth;
- increasing competition;
- regulation of the Georgian banking industry;
- the Bank's accounting systems and internal controls;
- exposure to credit risk of Georgian corporations and individuals;
- developing nature of centralised credit information in Georgia;
- enforcement of security under Georgian law; and
- dependence on key management and qualified personnel.

Other important risks relate to the economic, political, social, legal, regulatory and tax environment in Georgia and to the offering and the Notes and their trading market. The materialisation of any of these risks could materially adversely affect the Bank's business, financial condition or operating results and could cause the value of the Notes to decline or to become worthless. See "Risk Factors".

Recent Developments

In February 2006, Bank of Georgia purchased the assets and liabilities of Joint Stock Company Intellect Bank ("**Intellect Bank**"), which was then under temporary administration by the NBG. As part of the Intellect Bank acquisition, the NBG granted Bank of Georgia a two-year GEL 20.0 million facility and granted Bank of Georgia a one-year waiver from compliance with the NBG's mandatory financial ratios insofar as such ratios are affected by the Intellect Bank acquisition. Such waiver is valid through 20 February 2007.

On 23 June 2006, Bank of Georgia signed a memorandum of understanding with the shareholders of a Ukrainian bank, which gives Bank of Georgia the exclusive right to negotiate the purchase of the Ukrainian bank. On 29 December 2006, Bank of Georgia signed an amended non-binding memorandum of understanding pursuant to which Bank of Georgia has the exclusive right to acquire 98.15% of the shares in the Ukrainian bank. Bank of Georgia's purchase of the shares in the Ukrainian bank is subject to signing binding sale and purchase agreements with the shareholders of the Ukrainian bank, as well as obtaining required corporate, regulatory and governmental approvals. On 27 December 2006, Bank of Georgia received permission from the Antimonopoly Commission of Ukraine to acquire more than 50% of the Ukrainian bank. On 15 January 2007, Bank of Georgia increased its ownership interest in the Ukrainian bank from 2.82% to 9.92%. Bank of Georgia's total investment in the Ukrainian bank's equity currently amounts to approximately U.S.$7.0 million. The Ukrainian bank, headquartered in Kiev, principally provides corporate and retail banking services and as of 31 December 2006, had a network of 34 branches and service outlets. As of 1 December 2006, it had total assets of over UAH 900 million and total shareholders equity of more than UAH 150 million, in each case based on its statutory Ukrainian accounts filed with the National Bank of Ukraine.

On 23 October 2006, the Bank established GTU in Ukraine. GTU is engaged in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, intends to engage in asset management. As of the date of this Prospectus, GTU has eight employees.

On 6 November 2006, the Bank established its Executive Equity Compensation Plan (the "**EECP**"). The Bank settled a Jersey trust established for this purpose with GEL 1.5 million. In connection with the EECP, the trust has subscribed to 850,000 ordinary shares of Bank of Georgia in the form of restricted GDRs on 29 November 2006. The trust is further expected to subscribe to an additional 650,000 ordinary shares of Bank of Georgia in the form of restricted GDRs which Management expects to occur in 2007, subject to the availability of authorised and unissued shares. In December 2006, Bank of Georgia's Supervisory Board recommended the award of 206,000 Bank of Georgia ordinary shares in the form of restricted GDRs to 18 executives of the Bank pursuant to the EECP in respect of the year ended 31 December 2005. See "Management and Employees—Executive Equity Compensation Plan".

In December 2006, BCI acquired a 100.0% equity interest in Aldagi, a leading insurance company in Georgia. Both BCI and Aldagi, which is expected to be merged into BCI by June 2007, are licensed to carry out life and non-life insurance activities.

Over the past year, Bank of Georgia has increasingly diversified its funding base. Significant sources of funding obtained in the past year include the following:

- In February 2006, Bank of Georgia obtained a U.S.$10.0 million 10-year loan from WorldBusiness Capital (with a partial guarantee from Overseas Private Investment Corporation ("**OPIC**")).
- In March 2006, Bank of Georgia received a U.S.$25.0 million unsecured loan facility from Citibank International PLC.
- In July 2006, Bank of Georgia raised GEL 14.4 million of equity financing through the sale of 750,000 new Bank of Georgia ordinary shares.
- In August 2006, Bank of Georgia received a U.S.$5.0 million subordinated loan from a fund advised by Thames River Capital.
- In August 2006, Bank of Georgia received a U.S.$25.0 million unsecured loan facility from Merrill Lynch International.
- In September 2006, Bank of Georgia received a U.S.$25.0 million convertible subordinated loan facility from a fund advised by HBK Investments L.P.
- In September 2006, Bank of Georgia raised GEL 9.0 million of equity financing through the sale of 400,000 new Bank of Georgia ordinary shares.
- In November 2006, the Bank raised net proceeds of U.S.$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new Bank of Georgia ordinary shares in the form of GDRs pursuant to an initial public offering to institutional investors.
- In January 2007, Bank of Georgia drew down U.S.$12.5 million from the U.S.$12.5 million Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("**FMO**") loan facility entered into by Bank of Georgia in December 2006.
- In January 2007, Bank of Georgia drew down U.S.$5.0 million from European Bank for Reconstruction and Development ("**EBRD**") loan and participation facilities entered into by Bank of Georgia in 2005. Of this amount, U.S.$1.8 million was a loan to Bank of Georgia and U.S.$3.2 million was EBRD's participation in the form of a deposit with Bank of Georgia to be utilised directly by the sub-borrower.

OVERVIEW OF THE OFFERING

The summary below describes the principal terms of the Notes and the Loan Agreement. See "Terms and Conditions of the Notes" for a more detailed description of the Notes.

The Offer	Offering of U.S.$200,000,000 9.0% Loan Participation Notes due 2012 in reliance on Regulation S under the Securities Act.
Issuer	BG Finance B.V., a private company with limited liability incorporated under the laws of The Netherlands.
Borrower	Joint Stock Company Bank of Georgia.
Lead Manager	Merrill Lynch International.
Trustee	BNY Corporate Trustee Services Limited.
Principal Paying Agent	The Bank of New York.
Registrar	The Bank of New York (Luxembourg) S.A.
Transfer Agent	The Bank of New York.
Issue Price	100.0% of the principal amount of the Notes.
Interest Payment Dates	On each Interest Payment Date (being 8 February and 8 August in each year commencing on 8 August 2007 and ending on 8 February 2012), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.
Status and Ranking of the Notes	The Notes constitute limited recourse obligations of the Issuer and shall at all times rank *pari passu* and without preference amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer. The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the Loan to Bank of Georgia pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received from Bank of Georgia under the Loan Agreement or held on deposit in the Account (as defined in the Trust Deed) less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under "Terms and Conditions of the Notes".
Security	The Issuer's payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer's rights and interests as lender under the Loan Agreement, and (ii) the Issuer's rights, title and interest in, and all sums held on deposit in, the Account (as defined in the Trust Deed) (in each case, other than the Reserved Rights), all as more fully described under "Terms and Conditions of the Notes". In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the

Trustee for the benefit of itself and the Noteholders, as more fully described under "Terms and Conditions of the Notes".

Status of the Loan	The Loan and all payment obligations expressed to be assumed by Bank of Georgia thereunder constitute direct, general, unconditional, unsecured and unsubordinated obligations of Bank of Georgia which will at all times rank at least *pari passu* with all its other unsecured and unsubordinated indebtedness, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application.
Form	The Notes will be issued in registered form. The Notes will be in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by interests in a Global Certificate. The Global Certificate will be exchangeable for Definitive Certificates only in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".
Redemption	The Notes will be redeemed on 8 February 2012. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that the Bank elects to prepay the Loan (i) for tax reasons, (ii) due to the Bank being required to pay additional amounts on account of certain increased costs incurred pursuant to the Loan Agreement, (iii) if it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding under the Loan Agreement, or (iv) upon the Bank being required to pay additional amounts following a Relevant Event. See Condition 5 (Redemption). The Notes may be also redeemed at the option of the Noteholders at their principal amount, together with accrued interest to the date of redemption, following the occurrence of a Put Event (as defined in "Terms and Conditions of the Notes—Redemption at the Option of the Noteholders upon a Put Event").
Amendments/Waiver	As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Negative Pledge and Other Covenants	Clause 14 (Covenants) of the Loan Agreement contains a negative pledge in relation to the creation of Security Interests, other than Permitted Security Interests and Security Interests where the Loan is secured equally (each as defined in the Loan Agreement) by Bank of Georgia and its Subsidiaries (as defined in the Loan Agreement) and covenants limiting mergers and disposals by Bank of Georgia, transactions between Bank of Georgia and its Affiliates (as defined in the Loan Agreement) and financial covenants by Bank of Georgia. See "The Loan Agreement".
Permitted Reorganisation	The Loan Agreement permits certain reorganisations by Bank of Georgia and its Subsidiaries and, in particular, permits the transfer of shares of Bank of

Georgia or its subsidiaries to a new holding company of Bank of Georgia provided that the new holding company has given a guarantee of Bank of Georgia's obligations under the Loan Agreement pursuant to a deed of guarantee containing covenants broadly similar to those described above.

Event of Default/Relevant Event .... If an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in Condition 12 (Enforcement)) shall have occurred and be continuing, the Trustee may, subject as provided in the Trust Deed, (i) in the case of an Event of Default, require the Issuer to declare all amounts payable under the Loan Agreement by Bank of Georgia to be due and payable and do all such other acts in connection therewith that the Trustee may direct or (ii) in the case of a Relevant Event, enforce any rights under the security created in the Trust Deed in favour of the Noteholders.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for such redemption and any additional amounts due and thereupon shall cease to be outstanding, all as more particularly described in the "Terms in Conditions of the Notes".

Credit Ratings .... Bank of Georgia has ratings of "B3" and "Baa3" long-term and "Not-Prime" and "Prime-3" short-term foreign and local currency deposits, respectively, and an "E+" Financial Strength rating from Moody's Investors Service, Inc. ("**Moody's**"). Moody's rating outlook for Bank of Georgia is stable. Bank of Georgia has ratings of "B" for foreign and local currency issuer default, "B" for short-term foreign and local currency deposits, individual "D" and support "5" from Fitch Ratings, Ltd ("**Fitch**"). Fitch's rating outlook for Bank of Georgia's issuer default ratings are positive. Bank of Georgia has ratings of "B+" long-term and "B" short-term for counterparty credit from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**"). Standard & Poor's rating outlook for Bank of Georgia is stable. Bank of Georgia is the only company in Georgia rated by three international rating agencies.

The Notes are expected to be rated long-term "B" and recovery "RR4" by Fitch, "Ba2" by Moody's and "B+" by Standard & Poor's.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.** Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Bank of Georgia could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Withholding Tax or Increased Costs; Gross up	In the event that any payments to be made by Bank of Georgia under the Loan Agreement become subject to any withholding tax imposed by The Netherlands, Georgia or any taxing authorities thereof or therein or certain other circumstances result in the Issuer incurring any increased cost associated with the Loan, Bank of Georgia will (save in certain circumstances) be required to pay any additional amount necessary to compensate the Issuer for the tax withheld or the increased cost to the Issuer. See "The Loan Agreement".
Use of Proceeds	The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Loan to Bank of Georgia. Bank of Georgia will use the net proceeds of the Loan (expected to be approximately U.S.$197.35 million after deduction of a facility fee by the Issuer in the amount of approximately U.S.$2.65 million), to repay a U.S.$25.0 million unsecured loan facility from Merrill Lynch, to fund its organic growth, including the expansion of its lending activities, and for general banking purposes. See "Use of Proceeds".
Listing and Admission to Trading	Applications have been made to the UK Listing Authority for the Notes to be admitted to listing on the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market.
Selling Restrictions	The Notes have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act. The Notes may be sold in other jurisdictions (including the United States, the United Kingdom, Georgia, Switzerland, Hong Kong, Singapore and Italy) only in compliance with applicable laws and regulations. See "Subscription and Sale".
Governing Law	The Notes, the Loan Agreement and the Trust Deed will be governed by, and shall be construed in accordance with, English law.
Security Codes	ISIN: XS0283756624 Common Code: 028375662

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on Bank of Georgia's business, financial condition, prospects, operations or financial condition which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, factors which Bank of Georgia believes are material for the purpose of assessing the market risks associated with the Notes are also described below. The value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

Prospective investors should note that the risks and uncertainties described below are not the only risks and uncertainties the Bank faces. These are the risks and uncertainties Bank of Georgia considers material. There may be additional risks and uncertainties that Bank of Georgia currently considers immaterial or of which Bank of Georgia is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below.

RISKS RELATING TO INVESTMENTS IN EMERGING MARKETS

Investors in emerging markets such as Georgia should be aware that such markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Prospective investors should also note that emerging economies such as Georgia's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisors before making an investment decision.

RISKS RELATING TO THE BANK'S BUSINESS AND INDUSTRY

Management of Growth

The Bank's total assets have grown rapidly in recent years from GEL 230.1 million (U.S.$110.9 million) as of 31 December 2003 to GEL 363.2 million (U.S.$199.0 million) as of 31 December 2004 to GEL 460.6 million (U.S.$256.9 million) as of 31 December 2005 to GEL 856.7 million (U.S.$493.5 million) as of 30 September 2006. The rapid growth in the Bank of Georgia's total assets requires continued monitoring for risk management and compliance with NBG requirements by the Bank of Georgia's Asset and Liability Management Committee ("**ALCO**"), Management Board and Supervisory Board and the following departments of the Bank: Financial Risk Management, Credit Risk Management, Operational Risk Management and Compliance, Reporting and Analysis.

The Bank's loans to customers, net of allowance for impairment, grew from GEL 141.8 million (U.S.$68.3 million) as of 31 December 2003 to GEL 169.9 million (U.S.$93.1 million) as of 31 December 2004 to GEL 297.4 million (U.S.$165.9 million) as of 31 December 2005 to GEL 560.4 million (U.S.$322.8 million) as of 30 September 2006. This significant increase in credit exposure requires continued monitoring by the Bank of credit quality and the adequacy of its provisioning levels and continued development of financial and management control.

Moreover, the Bank intends to continue to expand its branch network and develop new business areas. The expansion of the Bank's network and business areas entails significant investment and increased operating costs. There can be no assurance that the Bank will achieve positive returns on any investment that it makes.

As part of its growth strategy, the Bank has participated and seeks to continue participating in the ongoing consolidation of the Georgian financial services industry through selective acquisitions or other business combinations. The Bank is also actively and selectively considering expansion opportunities in other markets in the Commonwealth of Independent States (the "**CIS**"). In line with its growth strategy, the Bank recently acquired the assets and liabilities of Intellect Bank, established GTU and BCI acquired a 100.0% ownership interest in Aldagi. The Bank has also signed a memorandum of understanding regarding its potential purchase of up to 98.15% of the shares in a Ukrainian bank. The Bank currently has a 9.92% ownership interest in this Ukrainian bank. The Bank further expects to review acquisition prospects, as well as proposals for business combinations, that may complement the Bank's existing business in the future. The Bank may not, however, be able to successfully integrate or manage such acquisitions or combinations in a timely or efficient manner. Significant difficulties could arise and/or material additional expenditures may be necessary. There can be no assurance that any potential acquisition or business combination will achieve the synergies sought. See "Risks Associated with Planned Transactions".

Overall growth of the Bank's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of the Bank's financial and information management control systems, the ability to integrate new branches or new acquisitions with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, adequate supervision and the maintenance of consistency of customer services. See "—Dependence on Key Management and Qualified Personnel".

If the Bank fails to properly manage its growth, such failure may have a material adverse effect on its business, financial condition, results of operations or prospects.

Increasing Competition

The Georgian market for financial services is becoming increasingly competitive. Bank of Georgia principally competes with other domestic banks, and its most significant competitors include TBC Bank, VTB Bank Georgia, ProCredit Bank, Cartu Bank and Bank Republic. In the future, the Bank expects increased competition in all areas of its business. In addition, it is likely that there will be increased competition from foreign banks and/or possible mergers between foreign and domestic banks. For example, France's Société Générale recently acquired a 60.0% ownership interest in Bank Republic, (10.0% is owned by EBRD), Vneshtorgbank currently has a 51.0% ownership interest in VTB Bank Georgia, Bank Turan Alem has a 49.0% ownership interest in BTA SilkRoadBank and Pro Credit Holding Group currently have a majority ownership interest in ProCredit Bank Georgia. If the Bank is unable to continue to compete successfully in the Georgian banking sector or to execute its business strategy, this could have a material adverse effect on the Bank's business and results of operations. See "Description of Business—Market Position" and "Description of Business—Strategy".

Regulation of the Georgian Banking Industry

Bank of Georgia is subject to banking regulations in Georgia adopted by the Georgian Parliament and NBG and is supervised by the NBG. The requirements, including complying with mandatory financial ratios, imposed by Bank of Georgia's regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom Bank of Georgia deals. These regulations may limit Bank of Georgia's activities and may increase its costs of doing business.

The NBG requires Georgian banks to regularly file periodic reports, and Georgian authorities, including the NBG, have the right to, and do, conduct periodic inspections of Bank of Georgia's operations throughout each year. A breach of regulatory requirements in Georgia could expose Bank of Georgia to potential liability and other sanctions, including the loss of its general banking licence. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, and the regulatory structure governing Bank of Georgia's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted, at times in a rather expeditious manner. If existing or future regulations were imposed on Bank of Georgia, this could have an adverse effect on its business.

Legislation relating to banks in Georgia is less developed than in other jurisdictions and is subject to varying interpretations and inconsistent application, and legislative drafting has not always kept pace with the demands of the market. In recognition of the evolving nature of the banking industry in Georgia, the NBG has at times not strictly applied and enforced mandatory financial ratios applicable to banks, and certain banks do not always comply with existing regulations of the NBG with respect to mandatory financial ratios, including with respect to capital adequacy and liquidity. From time to time, Bank of Georgia has breached certain mandatory financial ratios set by the NBG, in part due to its high rate of growth. Management believes that Bank of Georgia is currently in compliance with all of the NBG's mandatory financial ratios, and Bank of Georgia has received a waiver from the NBG through 20 February 2007 with respect to all breaches of mandatory ratios resulting from the Intellect Bank acquisition. No assurance can be given, however, that Bank of Georgia will not breach mandatory ratios in the future or that it will be able to obtain a waiver for any such breach. In addition, inspections by regulatory authorities may conclude retrospectively that Bank of Georgia has violated laws, decrees or regulations, and Bank of Georgia may be unable to refute any such allegations or prevent or remedy any such violations.

Any finding by regulatory authorities that Bank of Georgia has violated laws, decrees or regulations could result in the imposition of sanctions, which could include fines, penalties, the initiation of a temporary administration of Bank of Georgia by the NBG or the suspension, amendment or termination of Bank of Georgia's general banking licence. Any of the foregoing developments could have a material adverse effect on Bank of Georgia's business, financial condition, results of operations and prospectus, as well as the trading price of the Notes.

See "Banking Sector and Banking Regulation in Georgia".

Accounting Systems and Internal Controls

Similar to many other companies in emerging markets, the Bank has in the past identified, and may in the future identify, areas of its internal control over financial reporting that need improvement. In connection with E&Y's audit of the Annual Financial Statements for the year ended 31 December 2005, E&Y reported material weaknesses in the Bank's internal controls and proposed several recommendations to improve the Bank's internal controls. Under the applicable international auditing standard, a material weakness is a weakness in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Specifically, E&Y identified weaknesses in the Bank's controls over the preparation of IFRS consolidated financial statements and the IFRS reporting of Bank of Georgia's subsidiaries, an absence of a unified accounting and financial reporting system for IFRS reporting purposes and an inadequacy of resources within the Bank's IFRS reporting team. While Management believes that the Bank's accounting systems and internal controls are in line with its peer companies in the Georgian market, as a result of the weaknesses identified by E&Y, the Bank has not reduced to an acceptably low level the risk that material errors in the Bank's consolidated financial statements may occur and may not be detected within a timely period by the Bank's management in the normal course of business.

To address these weaknesses, the Bank has undertaken (or is in the process of undertaking) the following steps, with a targeted completion of implementation date of 30 June 2007:

- appointing a new Chief Financial Officer (which occurred in March 2006);
- appointing a new head of the Finance Department (which occurred in January 2007);
- conducting IFRS training courses for the Bank's financial reporting staff using appropriately qualified and experienced trainers;
- preparing a comprehensive IFRS reporting package template containing all required disclosures for subsidiaries to report on a going-forward basis which would contain sufficient information to allow the Bank's management to prepare accurate and timely IFRS financial statements; and
- adopting a unified accounting and financial reporting system that will support dual tax and IFRS accounting.

Despite the steps the Bank is taking to address these issues, it may not be successful in remedying these material weaknesses or preventing future material weaknesses. In addition, the Bank's rapid growth in recent years and its strategy for growth will place an additional strain on accounting personnel and information technology resources and may make it more difficult for the Bank to remedy these material weaknesses or prevent future material weaknesses. If the Bank is unable to remedy these material weaknesses or prevent future material weaknesses, it may not be able to prevent or detect a material misstatement in its annual or interim IFRS consolidated financial statements. This could delay the Bank's preparation of timely and reliable annual or interim financial statements, harm its operating results and cause investors to lose confidence in its reported financial information, which could have a negative effect on the trading price of the Notes.

Exposure to Credit Risk of Georgian Corporations and Individuals

The Georgian economy has only recently been liberalised and as a result, many businesses in Georgia have limited experience in operating in competitive market conditions as compared to their Western counterparts. In addition, the Georgian economy has experienced significant volatility during the past several years. Accordingly, the financial performance of Georgian corporations is generally more volatile, and the credit quality of Georgian 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 relative unpredictability of economic and political conditions in Georgia and abroad. 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. Therefore, notwithstanding the Bank's credit risk evaluation procedures, it may be unable to correctly evaluate the current financial condition of each prospective corporate borrower and to accurately determine the ability of such corporate borrower to repay. 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.

While the substantial majority of the Bank's loans to customers are secured by collateral, if a significant number of the Bank's corporate or individual borrowers and/or guarantors experience poor financial performance due to a significant deterioration in Georgian or regional general economic conditions, including, *inter alia*, continued economic and political pressure and virtual embargo from certain neighbouring countries, and a devaluation/fluctuations of the Lari, or volatility in certain sectors of the Georgian 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.

Developing Nature of Centralised Credit Information in Georgia

In 2004, Bank of Georgia, jointly with certain other Georgian banks and with Creditinfo Group, a European provider of credit information solutions, established Credit Info Georgia ("**CIG**") to serve as the centralised credit bureau in Georgia. While most Georgian banks have recently begun to share and contribute negative customer credit information to CIG, CIG is not yet fully developed. Due to the lack of an existing fully developed centralised credit bureau in Georgia, the Bank may be unable to confirm information provided by credit applicants or determine whether other banks have previously extended credit to such applicants. As a result, borrowers may be overexposed by virtue of other credit obligations of which the Bank has no knowledge. The Bank may therefore be exposed to credit risks which it may not be able to accurately assess and provide for, which could have a material adverse effect on the Bank's financial condition and results of operations. While certain Georgian legislation has been drafted to address the need for more developed centralised credit information, no assurance can be given that such draft legislation will be finally adopted into law or, if adopted, will be effective.

Enforcement of Security Under Georgian Law

The Bank enters into security and/or guarantee arrangements for the substantial majority of its loans made to individuals and legal entities. Under Georgian law, security (which includes pledges over real property and moveable property) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation is terminated. A mortgage under Georgian law is a pledge over property, such as land and buildings, which requires state registration to be valid. Under Georgian law, a pledge over moveable property is perfected either through registration or through possession. For enforcement of pledges over moveable property, the method of enforcement (by court or otherwise) can be pre-agreed in the pledge document. In relation to a mortgage foreclosure over real property under Georgian law, a court order and a public sale of the collateral is mandatory and a court may delay such public sale for a period of up to six months upon a pledgor's application. A draft law was submitted to the Parliament of Georgia in January 2007, which, if passed, will speed up the process of mortgage foreclosure over real property. However, no assurances can be made that such law will ultimately be adopted by the Parliament or, if adopted, that it will conform to the current draft. Although Georgian law provides for a system of pledge perfection, in practice it is not uncommon to have unexpected and/or conflicting claims of secured creditors upon the pledged property. In addition, pledges over chattel are often rather impracticable due to practical inability of the pledgee to restrict subsequent sale of such movable property. Therefore, the Bank may have difficulty foreclosing on collateral or enforcing other security when customers default on their loans.

Dependence on Key Management and Qualified Personnel

The Bank is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. While the Bank has entered into employment contracts with key members of its management, no assurance can be given that the current members of the Bank's management will continue to make their services available to the Bank on a long-term basis.

In addition, the Bank's success will depend, in part, on its ability to continue to retain, motivate and attract qualified and experienced banking and management personnel. Competition within the Georgian banking industry for qualified banking and management personnel is intense due to the disproportionately low number of available qualified and/or experienced individuals compared to the level of demand. Moreover, the Bank's need for qualified staff will increase as it grows. The Bank aims to be the employer of choice in the Georgian banking industry and has introduced attractive compensation packages for its personnel, including the EECP.

Management has also succeeded in recruiting approximately 20 Western trained professionals. However, there can be no assurance that the Bank will be able to successfully recruit and retain 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. See "Management and Employees".

Market Risks

The Bank is exposed to market risks, including currency exchange rate risk and interest rate risk. Although the Bank sets limits and performs certain other measures aimed at reducing currency exchange rate risk, currency exchange rate fluctuations may adversely affect the Bank. For example, although the Bank has no proprietary currency trading position, a significant portion of its consumer loan portfolio is denominated in Lari, and therefore the Bank may be exposed to currency risk when it receives funding denominated in foreign currencies.

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 generally matches its interest rate positions, interest rate movements may adversely affect the Bank's financial position. The Bank's results of operations largely depend on its net interest income. There can be no assurance that the Bank's strategies and measures taken by Management will protect it from the negative effect of a future decrease of interest rates. Interest rates are highly sensitive to a number of factors beyond the Bank's control, including the NBG's reserve policy and domestic and international economic and political conditions. A significant decrease in market interest rates could reduce the Bank's net interest income and adversely affect the Bank's business, financial condition and results of operations. See "Risk Management—Market Risks".

In addition, the Bank's plans to access the international capital markets make it subject to additional risks inherent in currency exchange rate and interest rate volatility. Although the Bank seeks to minimise such risks by considering the possibility of using derivative instruments, no assurance can be given that these measures will be effectively implemented or that they will allow the Bank to minimise the impact of currency exchange rate and interest rate volatility.

If the Bank's risk management procedures and limits do not minimise the impact of market risks on the Bank, its business, financial condition and results of operations may be adversely affected.

Liquidity Risk

The Bank is exposed to liquidity risk arising out of mismatches between the maturities of the Bank's assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank primarily relies on short-term funding sources to finance the growth of its loan portfolio. The Bank's liquidity is managed through sales and purchases of securities, interbank borrowing and lending, borrowing from the NBG and issuing debt instruments, as well as by cash flow and liquidity gap analysis. In the future, the Bank aims to continue diversifying its funding sources by accessing the international and Georgian debt markets through syndicated loan facilities and debt securities issues. The Bank's ability to continue to access these markets to an extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Georgian and international economic conditions and, in particular, the state of the Georgian banking system.

Management believes that the Bank's access to funding, including as a result of its credit ratings by Fitch, Moody's and S&P, and its liquidity risk management policy will enable it to meet its liquidity needs. Nevertheless, any difficulties experienced by the Bank in accessing the Georgian or international debt and equity markets, or maturity mismatches between the Bank's assets and liabilities may, together or separately, have a material adverse effect on the business, financial condition, results of operations or prospects of the Bank.

Licences

All banking operations and various related operations in Georgia require a general banking licence from the NBG. Although Bank of Georgia has such a licence, there is no assurance that Bank of Georgia will be able to maintain such licence or obtain a new general banking licence if necessary in the future. There can be no assurance that Bank of Georgia will not be required to obtain other licenses from the NBG in the future and that Bank of Georgia will be able to obtain and maintain any such licence. Applying for a NBG licence may be a burdensome and time-consuming process. The NBG may, in its discretion, impose additional requirements or deny Bank of Georgia's request for a licence, which would harm Bank of Georgia's business and results of operations. The loss of an NBG licence, a breach of the terms of an NBG licence by Bank of Georgia or the failure to obtain an NBG licence in the future could result in cashflow difficulties and penalties which may include fines imposed by the NBG on the Bank, temporary administration of Bank by the NBG and/or initiation of liquidation process against the Bank, which may, in turn, affect Bank of Georgia's ability to fulfil its payment obligations, and would have a material adverse effect on Bank of Georgia's business, financial condition, results of operations and prospects. In addition, breach of the licence terms and licensing requirements may entail imposition of the temporary administration by NBG over the Bank, which may have adverse effect on the ability of the Bank to perform its contractual obligations. If Bank of Georgia loses its general banking licence, this will result in its inability to perform any banking operations. See "Banking Sector and Banking Regulation in Georgia".

Technological Risks

The Bank's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its information technology systems and the ability of those systems to keep pace with the rapid expansion of the Bank's business operations. Any disruption to the functionality of the Bank's information technology systems, or delays in increasing the capacity of those systems, may lead to delays 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 the business, financial condition, results of operations and prospects. Furthermore, the expansion of the Bank's operations and the introduction of new technologies result in correspondingly greater technological risks, as the financial consequences of any failure of equipment, networks or software become more severe.

Risks Related to Money Laundering and/or Terrorist Financing

Although the Bank has implemented comprehensive anti-money laundering ("**AML**") and "know-your-customer" ("**KYC**") policies and procedures, monitored by AML Compliance, and adheres to all requirements under Georgian legislation aimed at preventing it being used as a vehicle for money laundering, there can be no assurance that these policies and procedures will be completely effective. In 2005, Bank of Georgia was found in violation of certain provisions of the Georgian Law on Money Laundering relating to the timely reporting of certain transactions in excess of GEL 30,000 (or foreign currency equivalent) and to the reporting obligations triggered by requests for information from the authorities. A fine was imposed on Bank of Georgia and on all other Georgian banks by the NBG, and the NBG made certain recommendations for improvement of Bank of Georgia's AML capability. Since the imposition of the fine, the amount of the NBG's fines imposed for the violation of mandatory threshold reporting deadlines have been significantly reduced, but such reductions do not have retroactive effect. Bank of Georgia has implemented all of the NBG's recommendations and has additionally formed the AML Compliance department, which is in the process of implementing more sophisticated AML software in order to better monitor and analyse the Bank's client database and transaction patterns and detect suspicious behaviour. See "Description of Business—Litigation" and "Risk Management—Anti-Money Laundering Policy". If the Bank in the future fails to comply with timely reporting requirements or other AML regulations and/or is associated with money laundering and/or terrorist financing, its reputation, results of operations, financial condition and prospects may be adversely affected. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

Restrictive Covenants

In addition to the Loan Agreement, Bank of Georgia is a party to a number of loan agreements that contain covenants imposing significant operating and financial restrictions on Bank of Georgia. These restrictions require Bank of Georgia to maintain compliance with specified financial ratios and significantly limit, and in some cases prohibit, among other things, the ability of Bank of Georgia and certain of its subsidiaries to incur additional indebtedness, create liens on their 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 has breached certain of these covenants. While Bank of Georgia has obtained waivers from the relevant lenders in respect of its past and current material breaches, there can be no assurance that waivers will be granted for any breaches in the future. A failure by Bank of Georgia to comply with the covenants in its other loan agreements would constitute a default under the relevant agreements and could trigger a cross-default under other agreements to which Bank of Georgia is a party, including the Loan Agreement. In the event of such a default, Bank of Georgia's obligations under one or more of these other loan agreements could, under certain circumstances, become immediately due and payable, which would have a material adverse effect on the Bank's business, financial condition, results of operations or prospects and on the Bank's ability to make payments on the Loan. See "Funding—Loans and Advances from Credit Institutions".

Risks Associated with Planned Transactions

As part of its overall strategy, the Bank is actively and selectively considering regional expansion opportunities. Achievement of the Bank's acquisition strategy will be dependent on a number of conditions, including identification of suitable targets, satisfactory completion of due diligence and obtaining required corporate and governmental approvals. There can be no assurance that any potential transactions will be completed on terms acceptable to the Bank or at all. Specific planned transactions discussed in this Prospectus are subject to the execution of a binding agreement, which, if signed, will in turn be subject to a number of conditions precedent, including, without limitation, regulatory approvals. In the event that planned transactions are delayed or are not consummated, the Bank's ability to diversify and expand its banking operations may suffer and its prospects could be materially adversely affected. See "Summary—Recent Developments" and "Business—Strategy".

RISKS RELATING TO GEORGIA

General

Since obtaining independence from the former Soviet Union in 1991, Georgia has undergone a substantial political transformation from a constituent republic of the former Soviet Union (the "**FSU**") to an independent sovereign state. Concurrently with this transformation, Georgia has rapidly changed from a centrally planned economy to a market economy. Although progress has been made since independence to reform Georgia's economy and its political and judicial systems, to a certain extent Georgia still lacks the legal infrastructure and regulatory framework that is essential to support market institutions, its continued development as a market economy and broad based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Georgia, although the list is not an exhaustive one.

Political Risks

Political and Governmental Instability

Political conditions in Georgia were highly volatile in the 1990s and in the early part of this decade. Following the collapse of the Soviet Union in 1991, Georgia declared independence and elected nationalist leader Zviad Gamsakhurdia as president. Mr. Gamsakhurdia was deposed in a *coup d'état* from December 1991 to January 1992. In March 1992, former Foreign Minister of the Soviet Union Eduard Shevardnadze became the country's new leader as the head of a transitional governing body called the "State Council". Georgia was recognised as a sovereign state by the EU countries on 23 March 1992, by the United States on 25 December 1991 and by the Russian Federation on 2 July 1992. On 31 July 1992, Georgia became the 179th plenipotentiary member of the United Nations and joined the CIS in October 1993.

Georgia was embroiled in a civil war that lasted from 1992 through 1994. During this period, disputes with local separatists in the Abkhazian and South Ossetian autonomous republics, which declared their independence from Georgia in 1990, led to inter-ethnic violence and armed conflict. Widely believed to be supported by Russia, these regions achieved *de facto* independence from Georgia but their independence is not recognised by Georgia or internationally.

Mr. Shevardnadze was elected president in 1995 and was re-elected in 2000. Mr. Shevardnadze resigned in November 2003 following mass demonstrations over the conduct of parliamentary elections, popular discontent at widespread corruption and the slow pace of reforms. The peaceful uprising that displaced Mr. Shevardnadze is known as the "Rose Revolution". Mikheil Saakashvili was the leader of the revolution and was himself elected president in January 2004.

While President Saakashvili has managed to maintain political stability in Georgia and has introduced policies oriented towards the acceleration of political and economic reforms, there can be no assurances that current Georgian government policies or economic or regulatory reforms will continue at the same pace or at all. President Saakashvili and his government face several challenges, including resolving the status of Abkhazia and South Ossetia, the improvement of relations with Russia, the implementation of further economic reforms and the maintaining of a political consensus. No assurance can be given that reform and economic growth will not be hindered as a result of the disruption of government continuity or any other changes affecting the stability of the government or as a result of a rejection or reversal of reform policies. Political instability in Georgia may have negative effects on the economy and thus on the business of the Bank.

The government's reform policies have been undermined by certain recent high-profile events, including rioting in March 2006 in the main prison in Tbilisi and allegations that the murder of a banker in January 2006 was ordered by officials of the Ministry of the Interior. In an attempt to force the resignation of the interior minister and to make several other demands, a total of 39 members of parliament from four opposition parties boycotted parliamentary sessions beginning in April 2006. The government and the parliamentary majority rejected many of the demands, and the boycott continued through the remainder of the parliamentary session that concluded at the end of June 2006. By the beginning of November 2006, the four opposition parties ended their boycott of Parliament. The status of Abkhazia and South Ossetia continues to be unresolved. Developments in Upper Abkhazia (formerly known as the Kodori Gorge) in August 2006 further increased tension between the central Georgian government and separatists in the region. On 12 November 2006, two rival parallel presidential elections and referenda took place in the territory of the autonomous republic of South Ossetia, one organised by the current pro-Russian ruling regime and the other by a group of pro-Georgian officials, resulting in both a vote for independence and referendum to initiate discussions with Tbilisi to maintain territorial integrity of Georgia. The Georgian government has stated that both elections are illegal. While both actions were largely criticised by the international community, certain officials of the Russian Federation, including the Ministry of Foreign Affairs, have expressed their implicit support of the first group while condemning the actions of the second one. In addition, over the last two months, several brief armed clashes were reported in Abkhazia and it was reported that Russia began construction of a gas pipeline designed to supply South Ossetia with gas directly from Russia as a means to increase the autonomy of the breakaway republic. The spread of violence, or the intensification of conflict and violence, in Abkhazia and/or South Ossetia could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, Georgia.

In December 2006, a new set of amendments to the Constitution of Georgia was adopted by Parliament. Such amendments shorten the current presidential term to allow simultaneous presidential and parliamentary elections in autumn 2008.

Any adverse changes in the political climate in Georgia, in particular any such changes affecting the stability of the Georgian government or involving a rejection or reversal of its current reform policies favouring privatisation and legislative reform, may have negative effects on the Bank and could materially adversely affect the market price of the Notes.

Regional Relationships

Georgia is dependent on its political and economic relationships with its regional neighbours. Georgia's major trade partners are Turkey, Azerbaijan, Russia, Turkmenistan, Armenia, Bulgaria, the United States and Ukraine. Georgia depends heavily on imports from Russia, Turkmenistan and Azerbaijan for most of its energy requirements.

Russia is Georgia's largest import supplier. Despite the steps it has taken to diversify its energy sources and reduce its dependence on Russia, Georgia, in common with other CIS countries, continues to depend to a large extent on Russia for its gas supply. In early 2006, Russian gas supplier Gazprom increased the price of gas from U.S.$65.0 per 1,000 cubic metres to U.S.$110.0 per 1,000 cubic metres. For 2007, the purchase price for Russian gas has been further increased from U.S.$110.0 per 1,000 cubic meters to U.S.$235.0 per 1,000 cubic metres. Such substantial increase in the price of gas from Russia could have a negative effect on the Georgian economy and thus on the business, results of operations, financial condition and prospects of the Bank. In 2006, Georgia imported approximately 95.0% of its natural gas supplies from Russia. The considerable dependence of the Georgian economy on Russian exports of natural gas, accompanied by the increase of the price for natural gas, may adversely affect the pace of economic growth of Georgia and, consequently, the operations of the Bank. Gas price increases have increased pressure for reforms in the Georgian energy sector and modernisation of major energy-consuming industries through the implementation of energy-efficient technologies and modernisation of production facilities. Although Georgia will likely be able to source a significant amount of its natural gas needs from the Iran-Azerbaijan-Georgia pipeline and Shah-Deniz pipeline in the near future, no assurance can be given that Georgia will be able to fully utilise those pipelines before further increases in the price of natural gas or a potential interruption in the supply of natural gas.

Relations with Russia have been strained since Georgia gained independence in 1991. Historically, Russia has maintained a continued military presence in Georgia. A 1999 agreement between Georgia and Russia called for the closing of two of Russia's four military bases in Georgia and an agreement entered into in 2005 establishes a timetable for Russia to withdraw from the two remaining military bases in Georgia by 2008. It has been alleged that a Russian military presence remains in Gudauta in Abkhazia. In July 2006, the Georgian Parliament called for the Russian peacekeepers in Abkhazia and South Ossetia to be replaced entirely by an international force. Currently, the UN operates a military observer mission alongside Russian peacekeepers in Abkhazia.

In the spring of 2006, Russia instituted a ban on the import of Georgian wine, a number of Georgian brands of mineral water and agricultural produce into Russia, in each case on the basis that the products failed to meet Russian quality standards. Although the IMF has indicated that the ban is unlikely to have a notable impact on Georgian GDP and its growth, a continued deterioration of Georgia's relationship with Russia would have a negative effect on the Georgian economy and thus on the business, results of operations, financial condition and prospects of the Bank.

On 27 September 2006, Georgian authorities detained four Russian officers upon suspicion of spying. Although the four officers were released by the Georgian authorities, Russia retaliated against Georgia by imposing strict commercial sanctions which include the suspension of all ground, sea and airborne transportation, as well as postal links between Georgia and Russia. In addition, Russia has commenced deportations of individuals with Georgian nationality from the territory of Russia. Several proposals have also been voiced by members of the Russian Parliament to ban all banking activities, including the transfer of remittances, between Russia and Georgia. The NBG has stated that any ban on banking activities would be in contravention of the IMF Charter. Both Georgia and Russia are members of the IMF. On 1 November 2006, the Foreign Ministers of each of Georgia and Russia met in Moscow in the first meeting of high-level officials between the two countries since the commencement of the sanctions, and later that month. Presidents Saakashvili and Putin met briefly at the CIS summit in Minsk. As of the date of this Prospectus, Russia has not indicated when or if the above-mentioned sanctions will be lifted. Strengthened and sustained sanctions against Georgia and/or the implementation of a ban on banking activities would have a negative effect on the stability of Georgia both in political and economic terms, which may result in a material adverse effect on the business, results of operations, financial condition and operations of the Bank, as well as the market price of the Notes.

In 1997, a regional group consisting of Georgia, Ukraine, Azerbaijan, Moldova and Uzbekistan, the latter leaving the organization shortly thereafter, established the GUAM consultative forum (now named the GUAM Organisation for Democracy and Economic Development) ("**GUAM**") with the aim of cooperation in the areas of energy, transport, trade and economy, information technology, culture, science and education, tourism, and the fight against terrorism, organised crime and drug trafficking. The recent increase in the scope of GUAM has strained the member countries' relationships with Russia, on the basis that GUAM is viewed as a competitor organisation to the CIS. Georgia also cooperates with neighbouring countries as part of the organisation of Black Sea Economic Cooperation (the "**BSEC**") which was launched in 1992 by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. Georgia maintains strong relations with Turkey, both commercially and politically. After Russia, Turkey is Georgia's largest import supplier, providing mainly consumer goods. There can be no assurance that Georgia's relationships with its neighbouring countries will not deteriorate.

On 22 November 2006, Standard & Poor's revised its outlook on the Government of Georgia from positive to stable, owing to increased geopolitical risk. Any adverse changes in Georgia's relations with neighbouring countries, including Russia, may have negative effects on the economy of Georgia and on the Bank and could materially adversely affect the market price of the Notes.

Relations with Western Governments and Institutions

Georgia is pursuing the objective of becoming a member of NATO and has expressed a long-term ambition of attaining EU membership. Georgia has been a member of the World Trade Organisation (the "**WTO**") since June 2000. Georgia has been a beneficiary of the EU GSP+ Scheme since 2005 and therefore benefits from the right to export 7,200 product categories duty free. On 21 September 2006, Georgia was awarded an "Intensified Dialogue" status by NATO pursuant to which Georgia will have access to a more focused political exchange with NATO on its membership aspirations and relevant reforms, without prejudice to an eventual decision on further progress towards membership.

The United States has maintained good relations with Georgia since 1992, and U.S. interest in Georgia increased substantially with the signing of the first of three international oil and gas pipeline agreements in 1996, designed to supply the West with oil and gas from the Caspian Sea, including via the Baku-Tbilisi-Ceyhan ("**BTC**") pipeline and the Shah-Deniz natural gas pipeline. Because of its strategic location, U.S. interest in Georgia as a national security partner increased after 11 September 2001 and has increased further since the election of Mr. Saakashvili. Over 850 Georgian troops currently serve in Iraq. In his most recent meeting with President Saakashvili at the White House, which took place on 5 July 2006, President Bush publicly reiterated his administration's support for Georgia's accession to NATO membership.

The text of Georgia's Action Plan with the EU under the European Neighbourhood Policy has been agreed. In May 2006 Georgia and the EU concluded a third round of negotiations on the Action Plan. The Georgian government has been seeking involvement from the EU in resolving the status of Abkhazia and South Ossetia and has expressed a long-term ambition of attaining EU membership.

Georgia maintains strong relations with Turkey, both commercially and politically. Turkey recently removed visa requirements for Georgian nationals and there is a significant amount of Turkish investment in Georgia, including in the current reconstruction of the airports in Tbilisi and Batumi. In January 2006, Georgia obtained a GSP+ status with Turkey. Georgia continues to cooperate with Turkey in the fields of trade, transportation and security. In addition, Georgia has cooperated with both Azerbaijan and Turkey in relation to the construction of several oil and gas pipelines which are transiting such countries. Negotiations are currently underway with the governments of Turkey and Azerbaijan to enable Georgia to purchase the bulk of its natural gas needs from the Shah-Deniz pipeline.

Any major changes in Georgia's relations with Western governments and institutions, in particular in terms of national security, Georgia's importance to Western energy supplies, the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, may have a negative effect on the Georgian economy and on the business, results of operations, financial condition and prospects of the Bank and could also materially adversely affect the market price of the Notes.

Economic Risks

Economic Instability

Since the dissolution of the Soviet Union in the early 1990s, Georgia's society and economy has 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, and the Georgian economy has experienced at various times:

- significant declines in gross domestic product ("**GDP**");
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to GDP;
- a weak banking system providing limited liquidity to Georgian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- the existence of a "black" and "grey" market economy;
- high unemployment and underemployment; and
- the impoverishment of a large portion of the Georgian population.

Following its declaration of independence from the FSU in 1991, the Georgian economy collapsed under the impact of civil war and the loss of both preferential access to the FSU markets and large budget transfers from Moscow. Industrial output fell by approximately 70.0% and exports by approximately 90.0%, the worst decline suffered by any transition economy in the FSU.

The economy of Georgia is dependent on the economies of other countries within the region, including Turkey and Russia, its two largest export markets which accounted for 12.2% and 9.0% of Georgia's total exports, respectively for the ten months ended 31 October 2006, according to the Customs Department of the Ministry of Finance of Georgia. On 17 August 1998, in a rapidly deteriorating economic climate, the Russian Government defaulted on its rouble denominated securities resulting in an immediate and severe devaluation of the rouble, a sharp increase in the rate of inflation and a near collapse of the Russian banking sector. The Russian crisis had a significant adverse effect on the economies of FSU countries including Georgia. These events subsequently resulted in a devaluation of the Lari, a consequent drop in commercial bank deposits and a significant slowing of Georgian GDP growth. Turkey and Ukraine are also important neighbours and important destinations for Georgian exports. Any economic disruptions or crises in Georgia's neighbouring markets, similar to the Russian crisis of 1998 or current embargo imposed by Russia (and pressure by Russia on other CIS members to impose such embargo on Georgia), may have a material adverse effect on Georgia's economy.

There can be no assurance that current trends in the Georgian economy, such as increasing GDP, a relatively stable Lari and a moderate rate of inflation, will continue or will not be reversed. In January 2006, electricity and gas supplies from Russia to Georgia were disrupted by near-simultaneous physical destruction of energy infrastructure in the North Caucasus area of southern Russia, resulting in a disruption in electricity and gas supplies to Georgia for several days until supplies were obtained from redundant sources. Moreover, recent uncertainty regarding international oil and gas prices, Russia's ban on the import of Georgian wine, bottled water and agricultural produce, the suspension of transportation and postal links, the threatened ban on banking activities, or other factors, could adversely affect Georgia's economy and the Bank's business, financial condition, results of operations and prospects. A strengthening of the Lari in real terms relative to the U.S. dollar, changes in monetary policy, inflation or other factors could adversely affect Georgia's economy and the Bank's business in the future. Any such market downturn or economic slowdown could also severely limit the Bank's access to capital, also adversely affecting its business.

Physical Infrastructure

Georgia's physical infrastructure is in poor condition, which could disrupt normal business activity. While since 2004 a large portion of the Georgian state budget revenues have been dedicated to improving Georgia's physical infrastructure, Georgia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past 15 years. Particularly affected are pipelines (except the newly built international oil and gas transit pipelines), rail and road networks, power generation and transmission, and communication systems. The Georgian government is implementing plans to reorganise, privatise and attract investment into the nation's rail, electricity and telecommunications systems. The privatisation processes for the electricity and telecommunications systems have largely been completed. Such reorganisation and privatisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. There can be no assurance that the Georgian government will continue to dedicate budget revenues to improving Georgia's physical infrastructure in the amounts that they currently are. A lack of progress in the rehabilitation of Georgia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Georgia and may interrupt business operations, any of which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Exchange Rates and Inflation

There was significant instability in the Lari-U.S. dollar exchange rate following the Russian financial crisis of August 1998. While the Lari has appreciated against the U.S. dollar in real terms from 2001 to the present, the ability of the Georgian government and the NBG to limit any further volatility of the Lari will depend on a number of political and economic factors, including the Georgian government's ability to control inflation and the availability of foreign currency reserves. According to estimates provided by the NBG, inflation as measured by period end Consumer Price Index ("**CPI**") in Georgia was 7.0% in 2003, 7.5% in 2004, 6.2% in 2005 and 6.0% for the nine months ended 30 September 2006. Although the rate of inflation has been stable in recent years, any return to heavy and sustained inflation could lead to market instability, a financial crisis, reductions in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to decreased demand for the Bank's products and services.

Currency Regulation

The Lari is generally not convertible outside Georgia. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2005, the total volume of trading turnover in the Lari/U.S. dollar and Lari/Euro markets amounted to U.S.$6.5 billion and EUR 1.1 billion, respectively. The exchange rate of the Lari against the U.S. dollar is fixed at the Tbilisi Interbank Foreign Exchange, which is used to determine the official exchange rate of Lari against foreign currencies. According to the NBG, the NBG has amassed in excess of U.S.$930.8 million worth of gold and currency reserves as of 31 December 2006. While it is widely believed 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 the Bank's business and the businesses of its corporate clients, which may in turn negatively affect the Bank's business and prospects.

Underdeveloped Banking System

Georgia's banking and financial services sector is less developed and less regulated in comparison with more developed countries. The NBG has at times not stringently applied and enforced prudential requirements applicable to banks, and banks do not always follow existing regulations of the NBG with respect to mandatory financial ratios, including with respect to capital adequacy and liquidity. The degree of financial intermediation in the Georgian economy (measured by banking assets as a percentage of GDP, which was approximately 22.0% as of 31 December 2005) is low compared to other transitional economies. A banking crisis in Georgia could result in the loss of deposits, severe liquidity constraints or an inability to complete banking transactions in Georgia, which would have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Social Risks

Crime and Corruption

Since the dissolution of the Soviet Union, criminal activity has significantly increased in Georgia. In addition, the political and economic changes in Georgia in recent years have resulted in significant dislocations of authority. In recent years, the local and international press reported high levels of corruption in Georgia. Although levels of corruption have been significantly reduced since the Rose Revolution, there can be no assurance that this trend will continue or will not be reversed. Any demands by corrupt officials made on the Bank or any claims that the Bank has been involved in official corruption may in the future bring negative publicity, could disrupt the Bank's ability to conduct its business effectively and could thus materially adversely affect the value of the Notes.

Social Instability

Restructuring of the Georgian government by the Saakashvili administration has significantly reduced the number of state employees, adding to unemployment and social instability, despite substantially increased salaries for most remaining state workers. Unemployment, and the failure of salaries and benefits in the public and private sectors to keep pace with the increasing cost of living in Georgia have led in the past, and could lead in the future, to labour and social unrest. Any consequences of social unrest could restrict the Bank's operations and lead to the loss of revenue, materially adversely affecting its business and prospects.

Legislative and Legal Risks

Developing Legal System

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Georgian laws in the areas of civil, criminal, administrative and commercial law have only recently become effective. Georgia's Soviet and early post-Soviet legal system was largely, but not entirely, replaced by a new legal regime following the adoption of the Constitution of Georgia in August 1995 and the subsequent enactment of new legislation in the areas of civil, criminal, administrative and commercial law. Following the Rose Revolution, major changes were made to the Constitution of Georgia and to other laws, including those enacted after 1995. 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. The following aspects of Georgia's legal system create uncertainty with respect to many of the legal and business decisions made by the Bank's management:

- continual and 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, as well as inconsistencies between laws, presidential orders and decrees, ministerial orders and regulations and local rules and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited precedent value;
- on occasions, new laws and amendments to existing laws have not been properly promulgated and have not been published prior to their effective dates;
- Georgia has a judiciary which has limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- Georgia has weak enforcement procedures for court judgements and there is no guarantee that a foreign investor would obtain effective redress in a Georgian court.

A number of observers of the Georgian judicial system have asserted that the system is subject to economic and political influences. 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. In addition, most court decisions are not readily available to the public. Enforcement of court judgements can, in practice, be very difficult in Georgia. All of these factors make judicial decisions in Georgia difficult to predict and effective redress uncertain. Additionally, court claims may be used to further political aims. The Bank may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgements are not always enforced or followed by law enforcement agencies.

The current status of the Georgian legal system makes it uncertain whether the Bank would be able to enforce its rights in disputes with any of its contractual counterparties. 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.

Unlawful or Arbitrary State Actions

State authorities have a high degree of discretion in Georgia and at times may exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner that is contrary to law. There is a risk that the state may nullify or terminate contracts to which it is a party or withdraw licences based on selective applications of law, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use minor defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions. Unlawful or arbitrary state action, if directed at the Bank, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Uncertainties of the Georgian Tax System

A new Georgian Tax Code entered into force in January 2005. The number of taxes has been reduced from 22 to seven and the administrative procedures have been simplified. In order to make the tax reform revenue-neutral, the tax base was broadened by eliminating many existing tax exemptions, excise tax rates were increased and tax collection strengthened. In the new Tax Code, the VAT rate has been reduced to 18.0% and VAT exemptions reduced to a minimum. The corporate profit tax rate remains at 20.0% while the individual income tax rate, which is a flat tax, was reduced to 12.0%. The Parliament is currently considering certain amendments to the Tax Code, including further lowering social and income tax rates, as well as reorganising the tax administration, although no assurances can be given that such amendments would materialise in the future.

In addition, certain amendments to the Tax Code were passed by the Parliament in December 2006 without the text of such amendments (official or unofficial) being published or made available. Continuation of similar practices may have a negative impact on the Georgian business climate in general and may create particular operational issues for commercial entities, including the Bank.

The new Tax Code has not been in force for a significant period of time compared to more developed market economies, and, as a result, there is uncertainty as to its application. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authority, creating uncertainties and inconsistencies, exacerbated by continuous changes to the Tax Code and the difficulty of overturning decisions of the tax authorities. While Bank of Georgia believes that it is currently in compliance with the tax laws affecting its operations, it is possible that relevant authorities could take differing positions with regard to interpretative issues, which may result in a material adverse effect on the Bank's results of operations and financial condition.

In addition, Georgia faces considerable difficulties in ensuring impartiality of court system with respect to tax claims, especially when large amounts are being contested by tax payers. Inability of the Georgian court system to properly constrain tax police in connection with certain tax matters has been notorious over the past several years. Although certain steps are being taken to remedy the current situation, there can be no assurance that such practices will not continue in the future, which may result in a material adverse effect on the Bank's results of operation and financial conditions.

RISKS RELATING TO THE OFFERING, THE NOTES AND THE TRADING MARKET

Any negative change in Georgia's or Bank of Georgia's own credit rating could adversely affect the market price of the Notes

Georgia has ratings of "B+" long-term and "B" short-term for counterparty credit from S&P. S&P's rating outlook for Georgia is stable. Bank of Georgia has received and the Notes are expected to receive credit ratings from Fitch, Moody's and Standard & Poor's as set out in "Overview of the Offering". These credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Bank of Georgia could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Any negative change in Bank of Georgia's or the Notes' credit rating or the credit rating of Georgia could materially adversely affect the market price of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

Limited Recourse Obligations of the Issuer

In each case where amounts of principal, interest, Additional Amounts (as defined in the Loan Agreement), if any, and Indemnity Amounts (as defined in the Loan Agreement), if any, under the Terms and Conditions of the Notes or the Trust Deed are to be paid by the Issuer in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest, Additional Amounts and Indemnity Amounts, if any, are due in respect of the Notes, for an amount equivalent to sums of principal, interest, Additional Amounts and Indemnity Amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must rely solely on Bank of Georgia's covenant to pay under the Loan Agreement and the credit and financial standing of Bank of Georgia. Consequently, if Bank of Georgia fails to fully meet its obligations under the Loan Agreement, Noteholders will, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

Bank of Georgia may be unable to repay the Loan at maturity

At maturity, Bank of Georgia may not have the funds to fulfil its obligations under the Loan Agreement and it may not be able to arrange for additional financing. If the maturity date of the Loan occurs at a time when other arrangements prohibit Bank of Georgia from repaying the Loan, Bank of Georgia would try to obtain waivers of such prohibitions from the lenders under those other arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If Bank of Georgia cannot obtain the waivers or refinance these borrowings, it may be unable to repay the Loan.

Noteholders will have no direct recourse to Bank of Georgia

Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to Bank of Georgia, except through action by the Trustee to enforce the Note Security under the Trust Deed. As further described in and subject to the provisions of the Trust Deed, neither the Issuer nor the Trustee pursuant to the assignment of the Transferred Rights (as defined in the Trust Deed) shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payment of principal and/or interest by Bank of Georgia under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent is expected to meet, and will discharge, the obligations of the Issuer in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or Bank of Georgia after such payment is made.

The Notes may be redeemed prior to maturity

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that Bank of Georgia elects to prepay the Loan (i) for tax reasons, (ii) due to Bank of Georgia being required to pay additional amounts on account of certain increased costs incurred pursuant to the Loan Agreement, (iii) if it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding under the Loan Agreement, or (iv) upon Bank of Georgia being required to pay additional amounts following a Relevant Event. See Condition 5 (Redemption).

If the Notes are redeemed at a time when the cost of borrowing is lower than the interest rate on the Notes, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The claims of Noteholders may be limited in the event that Bank of Georgia is declared bankrupt

Georgian bankruptcy law is subject to varying interpretations. Accordingly, there are insufficient precedents to predict how any claims against Bank of Georgia would be resolved in the event of Bank of Georgia's bankruptcy (insolvency). In addition to the foregoing, commercial banks operating in Georgia are subject to specific bankruptcy regulations, adopted by the NBG, which have not been amended since 2004 and may already contain provisions currently contradicting other legislative acts. In the event of Bank of Georgia's bankruptcy (insolvency), its obligations to the Issuer, Trustee or Noteholders would be effectively subordinated to claims by secured creditors. Mortgage and pledge based claims would be satisfied according to the provisions of agreements. All other claims would then be satisfied in the following order: (1) NBG and other creditors, the claims of which were created following revocation of the Bank's banking activities' licence; (2) deposits of natural persons in amounts not to exceed GEL 1,500; (3) individual deposits not repaid under (2); (4) any other deposits; (5) other claims against the Bank; and (6) essential targeted expenditures of the NBG. In the event that the existing funds are not sufficient for full satisfaction of claims stipulated under points (2), (3), (4) and (5) above, all respective claims would be satisfied proportionally and the claims of the Noteholders may be thus limited.

In the event of Bank of Georgia's temporary administration imposed by NBG or bankruptcy (insolvency), Georgian bankruptcy laws may materially adversely affect its ability to make payments to the Issuer or the Trustee

Temporary administration or liquidation proceedings, if imposed and/or initiated by the NBG, could have material adverse effect on the ability of the Bank to make payments to the Issuer or the Trustee.

Unlike all other commercial legal entities, where liquidation and related procedures are administered by judicial authorities, namely by the district courts, the liquidation and other related proceedings for commercial banks, due to the special character of their business, are handled by and under the supervision, decision-making and administrative authority of the NBG. Involvement of courts is limited to notification formalities.

The effects of the temporary administration regime (similarly to insolvency/liquidation proceedings) are extensive and could result in unlimited subordination of the Bank to, and control of its activities by, the NBG. In such case, a temporary administrator, fully accountable to the NBG, would assume all functions and authorities of all corporate bodies of the Bank. In addition, subject to certain limitations, both the temporary administrator and the liquidator would be empowered by law to challenge certain prior activities of the management of the Bank, including previously concluded contracts. Consequently, in the event of Bank of Georgia's temporary administration imposed by the NBG or bankruptcy (insolvency), Georgian bankruptcy laws may materially adversely affect its ability to make payments to the Issuer or the Trustee.

Dutch Bankruptcy Laws

Under Dutch law, any rights of a company, which come into existence or are acquired by such company after it is declared bankrupt ("*failliet verklaard*") or granted a (provisional) moratorium of payment ("(*voorlopige*) *surséance van betaling*"), cannot be validly disposed of without the cooperation of the trustee in bankruptcy (in the case of a bankruptcy) or the administrator (in the case of a moratorium of payment). Consequently, the Trust Deed will (i) not create a valid charge over any rights of the Issuer purported to be charged thereby, such as rights in any amounts paid into the Issuer's bank accounts, which come into existence or are acquired by the Issuer after the Issuer has been declared bankrupt or granted a (provisional) moratorium of payment, and (ii) not create a valid assignment of any rights of the Issuer purported to be assigned thereby, which come into existence or are acquired by the Issuer after it is declared bankrupt or granted a (provisional) moratorium of payment.

It is uncertain under Dutch law whether a lender's right to payment of interest falling due on a loan at a time in the future constitutes a right which comes into existence at the time of the granting of the loan, or a right which comes into existence at the time when the interest falls due. The prevailing view in Dutch legal literature is that interest falling due at a time in the future in respect of a fixed term loan does constitute a right of the lender which comes into existence at the time of the granting of the loan, and that security over the lender's rights under such a loan, which is granted prior to a bankruptcy or a (provisional) moratorium of payment of the lender, will therefore attach to the interest falling due on such loan after a bankruptcy or a (provisional) moratorium of payment of the lender. However, there is no decisive case law on this matter, and it is, therefore, not certain that the Trust Deed will create a valid charge over the Issuer's rights to interest payments which fall due under the Loan Agreement after the Issuer has been declared bankrupt or granted a (provisional) moratorium of payment.

Enforcement of security rights against a party which has been declared bankrupt ("*failliet verklaard*") or granted a (provisional) moratorium of payment ("(*voorlopige*) *surséance van betaling*") may be suspended by a court for a period not exceeding four months. A holder of a security right may be prevented from enforcing its security right if such enforcement would be contrary to principles of reasonableness and fairness in the circumstances at hand.

A trustee in bankruptcy ("*curator*") in the bankruptcy of a Dutch company may (i) require a secured creditor to enforce its security right within a reasonable period of time and, if such creditor fails to do so, the trustee in bankruptcy may sell the security assets himself, without prejudice to the rights of the secured creditor to the sale proceeds, it being understood that in case of such sale of the security assets by the trustee in bankruptcy, the secured creditor will be liable for an apportionment of the costs made by the trustee in bankruptcy for the purpose of completion of the bankruptcy proceedings, or (ii) cause the release of the security assets against payment of the liabilities secured thereby and the enforcement expenses of the secured creditor, if any.

With respect to the enforcement in The Netherlands of the charge and the assignment created by the Trust Deed, the following should be noted. Foreign property rights may only be given effect by Dutch courts if and to the extent that they fit in the closed Dutch system of property rights ("*zakelijke rechten*"). A foreign property right, such as the charge and the assignment created by the Trust Deed, will therefore be treated by a Dutch court as the property right under Dutch law to which it may, in light of its purport and content ("*inhoud en strekking*") and with a view to the specific provision relating to enforcement which the holder of such foreign property right has invoked, be considered equivalent.

Interest payments on the Loan and on the Notes may be subject to Georgian and Dutch withholding tax, which would reduce the amounts received under the Notes if Bank of Georgia does not "gross up" its payments to the Issuer

In general, any interest income received by a non-resident entity from a Georgian resident entity shall be subject to withholding taxation in Georgia at the rate of 10.0%, unless such interest income is connected with a permanent establishment of the non-resident entity situated in Georgia, in which case the interest income shall be subject to standard corporate tax rate (20.0%) in Georgia, after permitted deductions. Non-resident entities receiving interest income from Georgian sources may be entitled to rate reduction or full relief of such interest income from withholding taxation in Georgia under provisions of applicable double tax treaties of Georgia.

Based on professional advice it has received, Bank of Georgia believes that, under the terms of the Treaty between the Government of the Georgia and the Government of The Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, dated 21 March 2002 (the "**Double Tax Treaty**"), as currently applied, payments of interest on the Loan will not, under current law, be subject to withholding tax in Georgia, provided that certain conditions set forth in the Double Tax Treaty and applicable Georgian legislation are duly satisfied. However, there can be no assurance that the exemption from withholding tax is or will continue to be available.

In particular, under Article 11, paragraph I of the Double Tax Treaty, interest income from Georgian sources paid to the Issuer, a resident of The Netherlands, shall be taxable only in The Netherlands and shall not be subject to income taxation in Georgia, provided that the Issuer is the "beneficial owner" of the interest and is "subject to tax" in respect of such interest in The Netherlands. The exemption will not be available under the Double Tax Treaty if the Issuer carries on business through a permanent establishment located in Georgia and the interest paid to the Issuer is effectively connected with such permanent establishment.

The concept of beneficial ownership and its application in the context of double tax treaties of Georgia is not developed either in Georgia's tax law or practice. As a consequence, different interpretations are possible and the tax authorities in Georgia might take a position that the Issuer is not the beneficial owner of the interest income received from the Borrower under the Loan Agreement and thus deny the benefits of the Double Tax Treaty to the Issuer. Notwithstanding this, Bank of Georgia believes that the Issuer will be treated as the beneficial owner of interest income in question and that it is unlikely that the tax authorities of Georgia will adopt a view to the contrary.

In addition, the applicability of tax relief under the Double Tax Treaty is limited in the case of a special relationship between the Georgian resident payer of interest and the Georgian resident beneficial owner of interest or between both of them and some other person, if the amount of interest, having regard to the underlying debt obligation for which it is paid, exceeds the amount that would have been agreed upon by the payer and the beneficial owner in the absence of such special relationship. In such a case, the tax relief would be granted only with respect to the amount that would have been agreed upon in the absence of such a special relationship and the remaining part of the interest payments would remain taxable according to the Laws of Georgia.

To the extent that payments under the Loan Agreement are subject to any withholding tax, the Issuer will reduce payments under the Notes by the amount of the withholding tax. If this occurs, Bank of Georgia is obliged in certain circumstances to pay such Additional Amounts (as defined in the Loan Agreement) as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding tax. Due to the limited recourse nature of the Notes, if Bank of Georgia fails to pay any such gross up amounts, the amount payable by the Issuer will be correspondingly reduced.

In addition, if the Trustee were to enforce the security under the Trust Deed following an Event of Default or Relevant Event, the Trustee will be entitled to payments of principal and interest under the Loan Agreement in the name of the Issuer or in its own name. As a result, benefits under the Double Tax Treaty may cease to be applicable to payments under the Loan Agreement and they may become subject to withholding taxation in Georgia unless the Trustee, without having an obligation to do so (or without having any obligation to ensure that it receives payments gross), meets all the criteria for the exemption under the Double Tax Treaty or other double tax treaty to which Georgia is a party. If this were to occur, Bank of Georgia would not be obliged to pay additional amounts on account of Georgian taxes withheld and, as a result, the Trustee (on behalf of the Noteholders) would only be entitled to receive an amount net of such taxes.

In addition, in certain cases, interest payments on the Notes by the Issuer to the Noteholders, who are subject to a Dutch limited or unlimited income tax liability, may be subject to Dutch withholding tax, which might reduce the amounts received by Noteholders under the Notes if the withholding tax is either not credited or refunded. In these cases, the Issuer will not pay any Additional Amounts unless it has received such additional funds from Bank of Georgia. Based on professional advice Bank of Georgia has received, Bank of Georgia believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Dutch or Georgian taxes as described in "Taxation—Dutch Tax Considerations" and "Taxation—Georgian Tax Considerations".

Tax gross up provisions under the Loan Agreement may be unenforceable against Bank of Georgia under Georgian law

If Bank of Georgia's payments to the Issuer under the Loan Agreement are subject to any withholding of Georgian tax (as a result of which the amounts received by the Issuer would be reduced by the amount of such withholding), Bank of Georgia will be obliged, subject to certain conditions, to increase payments under the Loan Agreement as may be necessary so that the net payments received by the Issuer (and, consequently, the Noteholders) will be equal to the amounts they would have received in the absence of such withholding. Such gross up clauses are routinely recognised by the respective tax authorities. However, there is some uncertainty under Georgian law as to the enforceability of such gross up provisions absent explicit recognition thereof by the Tax Code of Georgia. To the extent that this provision is deemed to be unenforceable, the net amount of the payments made by Bank of Georgia to the Issuer may be insufficient to permit the Issuer to make payment in full under the Notes.

Bank of Georgia will be required to gross up payments if the Issuer ceases to be incorporated in a qualifying jurisdiction by reason of a change of law or if the Double Tax Treaty is amended or repudiated

Payments of interest under the Loan Agreement will be subject to Georgian withholding tax at the rate of 10.0% if the Issuer, or any successor or assignee of the Issuer, ceases to be resident in a jurisdiction that has a double taxation treaty with Georgia that is similar to the Double Tax Treaty or if the Issuer, or any successor or assignee of the Issuer, takes or fails to take any action that would render the Double Tax Treaty inapplicable. Where this is the case, Bank of Georgia will, in certain circumstances specified in the Loan Agreement and subject to certain exceptions relating to the maintenance by the Issuer of its residence in a qualifying jurisdiction, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount the Issuer would have received in the absence of such withholding. While there is uncertainty as to whether the gross up clause contained in the Loan Agreement is enforceable under Georgian law, a failure by Bank of Georgia to pay additional amounts due under the Loan Agreement would constitute a default under the Loan Agreement.

Disposals of the Notes in Georgia

If a non-resident Noteholder that is a legal person or organisation sells Notes and receives proceeds from a source within Georgia, there is a risk of direct tax exposure at the rate of 20.0% on gross proceeds from such disposal of the Notes, less any available and permitted cost deduction. Where proceeds from a disposition of the Notes are received from a source within Georgia by an individual non-resident Noteholder, there may be a risk of direct tax exposure at the rate of 12.0% on gross proceeds from such disposal of the Notes, less any available and permitted cost deduction. Certain exemptions from income tax for individuals may be applicable in the event that such individuals maintain ownership of such Notes for more than two calendar years. Because of their practical inability to collect the above mentioned taxes, the tax authorities may attempt to collect a 10.0% withholding tax at the source of payment. However, such exposure may be remedied or completely eliminated by a respective tax treaty. The imposition or possibility of imposition of this tax could adversely affect the value of the Notes. See "Taxation—Georgian Taxation—Taxation of the Notes".

In the event that Bank of Georgia is obliged to pay such additional amounts, Bank of Georgia may prepay the Loan at its principal amount, together with accrued interest, and thereupon (subject to receipt of the relevant funds from Bank of Georgia) the Loan Agreement would be repaid and all outstanding Notes will be prepaid by the Issuer.

Foreign judgements may not be enforceable against Bank of Georgia

Bank of Georgia is incorporated under the laws of Georgia and all or a substantial portion of the assets of Bank of Georgia 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 doubt that a lawsuit based upon UK laws could be brought in an original action in Georgia and that a foreign judgement based upon UK laws would be enforced in Georgia.

Generally, foreign court judgements 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 judgement do not recognise the judgements of Georgian courts, the judgement 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 Netherlands) for the reciprocal enforcement of foreign court judgements, which may require new proceedings to be brought in Georgia in respect of a judgement 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 judgements. The limitations described above, including the general procedural grounds set out in Georgian legislation for the refusal to recognise and enforce foreign court judgements in Georgia, may significantly delay the enforcement of any such judgement, or potentially deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loan.

The Loan Agreement will be governed by English law and will provide the Issuer and the Trustee with the sole option to elect that disputes, controversies, claims and causes of action brought by any party thereto shall be settled by arbitration. Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as The Netherlands or the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with 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 Georgia 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, Georgian courts' inability to enforce such orders and corruption, thereby introducing delay and unpredictability into the process of enforcing any foreign judgement or any foreign arbitral award in Georgia.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the London Court of International Arbitration and the application of English law to the Loan Agreement 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. See "Enforceability of Judgements".

There is no existing market for the Notes

There is no existing market for the Notes. Although application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to be admitted to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or be maintained after the listing. Accordingly, there can be no assurance that a liquid market for the Notes will develop or be maintained, that holders of the Notes will be able to sell their Notes or that holders will be able to sell their Notes for a price that reflects their value.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in Bank of Georgia's own and Bank of Georgia's competitors' operating results, adverse business developments, changes in the regulatory environment in which Bank of Georgia operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors.

In addition, in recent years stock markets have experienced significant price and volume fluctuations. These fluctuations often were unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

In particular, the markets for securities bearing emerging market risks, such as risks relating to Georgia, may be volatile. Markets for such securities are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Georgia. In the last quarter of 1997, certain markets in Southeast Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. In August 1998, the government of the Russian Federation declared a moratorium on the payment of certain debt obligations of Russian entities and forced a restructuring of certain short-term domestic sovereign instruments. Although this moratorium expired in November 1998, the economic and financial situation in Russia remains uncertain and events may occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998. Any such volatility may adversely affect the liquidity of the market for, or price of, the Notes without regard to Bank of Georgia's results of operations, prospects or financial condition or without regard to the stability of the Georgian economy.

Exchange Rate Risks and Exchange Controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest Rate Risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

OTHER RISKS

Information Has Not Been Independently Verified

Substantially all of the information contained in this Prospectus concerning the Bank's competitors has been derived from publicly available information, including press releases, and the accuracy of this information has not undergone independent verification. In addition, some of the information contained in this Prospectus has been derived from the official data published by Georgian government agencies. The official data published by Georgian federal, regional and local governments may be substantially less complete or researched than those with more developed market economies. Official statistics may also be produced on different bases than those used in more developed market economies and, consequently, may be less reliable than those published by comparable bodies in other jurisdictions. Accordingly, Bank of Georgia cannot assure prospective investors that the official sources from which Bank of Georgia has drawn some of the information set out in this Prospectus are reliable or complete. Any discussion of matters relating to Georgia herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus, as well as written and oral statements that Bank of Georgia and its officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are not historical facts and may constitute "forward-looking statements". Forward-looking statements include statements concerning Bank of Georgia's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or discussions of strategy, plans or intentions, involve a number of risks and uncertainties. These forward-looking statements appear in a number of places throughout this Prospectus, including in "Risk Factors" and "Business" and other sections of this Prospectus. Bank of Georgia has based these forward-looking statements on the current views of its Management with respect to future events and financial performance. These views reflect the best judgement of the Management of Bank of Georgia but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those Bank of Georgia predicts in its forward-looking statements and from its past results, performance or achievements.

Although Bank of Georgia believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more risks or uncertainties were to materialise or occur, including those which Bank of Georgia has identified in this Prospectus, or if any underlying assumptions prove to be incomplete or inaccurate, its results of operations may vary from those it expected, estimated or projected.

Forward-looking statements that may be made by Bank of Georgia from time to time (but that are not included in this document) may also include projections or expectations of interest income, net interest income, operating income (or loss), net profit (or loss) (including on a per share basis), dividends, capital structure or other financial items or ratios.

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 Prospective 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. These factors include:

- overall business conditions, including the effects of competition in the geographic and business areas in which Bank of Georgia conducts its operations;
- interest rate fluctuations and other capital markets conditions, including foreign currency exchange rate fluctuations;
- prices for securities issued by Georgian entities;
- the health of the Georgian economy, including the Georgian banking sector;
- current political tensions between Georgia and Russia and further developments in connection with the final political status of the breakaway regions seeking independence from Georgia;
- the effects of, and changes in, the policy of the Georgian government and regulations promulgated by the NBG;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where Bank of Georgia conducts its operations;

- Bank of Georgia's ability to maintain or increase market share for its products and services and control expenses;
- the management of the rapid growth of Bank of Georgia's business and assets;
- acquisitions or divestitures;
- technological changes;
- Bank of Georgia's success at managing the risks associated with the aforementioned factors; and
- the timing, impact and other uncertainties of future actions.

This list of important factors is not exhaustive. When reviewing forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Bank of Georgia operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, but subject to the requirements of the UK Listing Authority, Bank of Georgia is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to Bank of Georgia, or persons acting on Bank of Georgia's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGEMENTS

Bank of Georgia is a joint stock company organised under the laws of Georgia. Bank of Georgia's management and its executive officers named in this Prospectus reside in Georgia. Moreover, substantially all the assets of Bank of Georgia and of such persons are located in Georgia. As a result, the Trustee, acting on behalf of the Noteholders, may not be able to effect service of process in the United Kingdom on Bank of Georgia or any of Bank of Georgia's directors or executive officers named in this Prospectus. No Noteholder will have any entitlement to enforce any provisions of the Loan Agreement, or have direct recourse to Bank of Georgia. The Trustee will not be required to enter into proceedings to enforce payment from Bank of Georgia under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses, which it may incur in connection therewith.

Similarly, the Trustee may not be able to obtain or enforce English court judgements in Georgia against Bank of Georgia or its management or executive officers. Foreign court judgements (including judgements of UK or Dutch courts) are recognised and are subsequently enforceable in Georgia under Articles 68 and 70 of Law of Georgia on International Private Law under certain conditions. Generally, foreign court judgements are recognised and enforceable in Georgia unless: (a) the matter is within exclusive competence of Georgia; (b) there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgement; (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, judgement of which has been recognised in Georgia; (d) the court rendering the judgement is not considered competent to adjudicate the dispute under Georgian legislation; (e) the country whose court has rendered the judgement does not recognise the judgements 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 judgement of the foreign court contradicts fundamental legal principles of Georgia. No treaty exists between Georgia and most Western jurisdictions (including the United Kingdom and The Netherlands) for the reciprocal enforcement of foreign court judgements, which may require new proceedings to be brought in Georgia in respect of a judgement 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 judgements. The limitations described above, including the general procedural grounds set out in Georgian legislation for the refusal to recognise and enforce foreign court judgements in Georgia, may significantly delay the enforcement of any such judgement, or deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loan.

The Loan Agreement is governed by English law and provides that if any dispute or proceeding arises from or in connection with the Loan Agreement, the Issuer may elect, by notice in writing to Bank of Georgia, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration. The place of such arbitration shall be London, England. Georgia and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Georgian courts should generally recognise and enforce in Georgia an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Georgian procedural regulations and other procedures and requirements established by Georgian legislation). According to the current practice established by the Supreme Court of Georgia, the foreign arbitral awards are in fact recognised and enforceable in Georgia by the Supreme Court of Georgia under Articles 68 and 70 of Law of Georgia on International Private Law by analogy to the recognition and enforcement of foreign court judgements as discussed above (the Supreme Court of Georgia sometimes fails to distinguish between refusal grounds for the recognition and enforcement of foreign court judgements and limitations contained in the New York Convention). However, it may be difficult to enforce arbitral awards in Georgia due to:

- the inexperience of the Georgian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Georgian companies in favour of foreign investors; and
- the inability of Georgian courts and respective enforcement agencies to enforce such awards.

Such established practice and applicable Georgian procedural legislation could change; therefore, *inter alia*, other grounds for Georgian courts to refuse the recognition and enforcement of foreign courts' judgements and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Georgian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgement or any foreign arbitral award in Georgia.

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The financial information of the Bank set forth herein, has, unless otherwise indicated, been derived from its audited consolidated balance sheet and consolidated statements of operations, cash flows and changes in equity as of and for the years ended 31 December 2005, 2004 and 2003 prepared in accordance with the International Financial Reporting Standards ("**IFRS**"), issued by the International Accounting Standards Board (the "**Annual Financial Statements**") and its reviewed unaudited consolidated financial statements as of 30 September 2006 and for the nine months ended 30 September 2006 and 2005 prepared in accordance with the International Financial Reporting Standard IAS 34, Interim Financial Reporting (the "**Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Financial Statements**").

Auditors

Ernst & Young LLC, independent auditors, having their registered address at Leselidze Street, 44, Tbilisi, 0105, Georgia ("**E&Y**"), have audited the Annual Financial Statements, as stated in its report appearing herein and have reviewed, but not audited, the Interim Financial Statements. E&Y is registered to carry out audit work by the Audit Activity Committee of the Parliament of Georgia.

Currency

In this Prospectus, the following currency terms are used:

- "**Georgian Lari**", "**Lari**" or "**GEL**" means the lawful currency of Georgia;
- "**U.S. dollar**", "**Dollar**" or "**U.S.$**" means the lawful currency of the United States of America;
- "**Pounds Sterling**" or "**£**" means the lawful currency of the United Kingdom;
- "**Euro**", "**EUR**" or "**€**" means the lawful currency of the member states of the European Economic Area that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended;
- "**Hryvnia**" or "**UAH**" means the lawful currency of Ukraine; and
- "**Cypriot pound**" or "**CYP**" means the lawful currency of Cyprus.

Exchange Rates

The following table sets out, for the periods indicated, the high, low, average and period-end interbank exchange rates, in each case for the purchase of Georgian Lari, all expressed in Georgian Lari per U.S. dollar. Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of certain Georgian Lari amounts into U.S. dollars at exchange rates established by the NBG and effective as of the date of the relevant financial information. Bank of Georgia and the Issuer do not make any representation that the Georgian Lari amounts referred to in this Prospectus could have been or could be exchanged into U.S. dollars at the above translation rate, at any other rate or at all.

	GEL/U.S. dollar/Interbank Exchange Rate			
	High	**Low**	**Average**	**Period End**
	(GEL per U.S. dollar)			
2007 (up to and including 31 January 2007)	1.71	1.71	1.71	1.71
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
2003	2.23	2.05	2.15	2.08
2002	2.24	2.06	2.19	2.09

Source: NBG.

The NBG's GEL per U.S. dollar exchange rate as reported on 31 January 2007 was GEL 1.71. See "Risk Factors—Risk Relating to the Bank's Business and Industry—Market Risks".

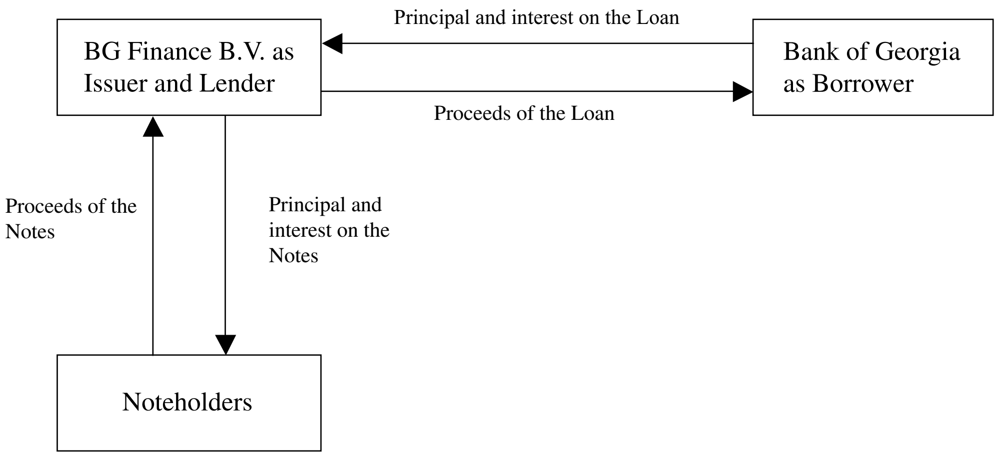
Rounding

Some numerical and percentage amounts included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical and percentage amounts shown as totals in certain tables may not be an arithmetic aggregation of the amounts that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

DESCRIPTION OF THE TRANSACTION

The following summary description should be read in conjunction with, and is qualified in its entirety by, the information set out under "Terms and Conditions of the Notes" and "The Loan Agreement" appearing elsewhere in this Prospectus.

The following diagram illustrates the structure of the transaction:



The transaction will be structured as a Loan to Bank of Georgia by the Issuer under the Loan Agreement. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to Bank of Georgia. The Loan will be made on the terms of the Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives by or for its account from Bank of Georgia pursuant to the Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed).

As provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by Bank of Georgia under the Loan Agreement, (b) its right to receive all sums which may be or become payable by Bank of Georgia under any claim, award or judgement relating to the Loan Agreement and (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer (including interest earned on the account, if any), together with the debt represented thereby (the "**Account**") (collectively, the "**Charged Property**"), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto. The Issuer will assign absolutely certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. Bank of Georgia will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has covenanted not to agree to any amendments to, or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights). The Issuer (save as expressly provided in the Trust Deed, the Loan Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Loan or the Charged Property or any right or benefit either present or future arising under or in respect of the Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the "Terms and Conditions of the Notes" and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in "Terms and Conditions of the Notes".

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of The Netherlands or Georgia, except as required by law. See "Terms and Conditions of the Notes—Taxation". In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from Bank of Georgia under the Loan Agreement. The Loan Agreement provides for Bank of Georgia to pay such corresponding amounts in these circumstances. In addition, payments under the relevant Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in Georgia or any jurisdiction from, or through, which any payments are made, except as required by law, in which event Bank of Georgia will be obliged to increase the amounts payable under the Loan Agreement. See "Risk Factors—Risks Related to the Notes".

Bank of Georgia may prepay the Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that Bank of Georgia is required to increase the amount payable or to pay additional amounts on account of taxes of Georgia or The Netherlands pursuant to the Loan Agreement or if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from Bank of Georgia), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See "The Loan Agreement—Repayment and Prepayment—Prepayment in the event of Taxes and Prepayment in the event of Illegality" and "Terms and Conditions of the Notes—Redemption".

USE OF PROCEEDS

The proceeds from the offering of the Notes, expected to amount to U.S.$200.0 million (before taking account of commissions, fees and expenses), will be used by the Issuer for the sole purpose of financing the Loan to Bank of Georgia. Bank of Georgia will use the net proceeds of the Loan (expected to be approximately U.S.$197.35 million after deduction of a facility fee by the Issuer in the amount of approximately U.S.$2.65 million) to repay a U.S.$25.0 million unsecured loan facility from Merrill Lynch International, to fund its organic growth, including the expansion of its lending activities, and for general banking purposes. Total commissions and expenses payable in connection with the issuance and admission to trading of the Notes and the obtaining of the Loan are expected to be approximately U.S.$3.5 million.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth, as of 30 September 2006, (a) the Bank's historical long-term borrowings and total capitalisation and (b) the Bank's long-term borrowings and total capitalisation, as adjusted to reflect Bank of Georgia's borrowing under the Loan Agreement (as if such borrowing had occurred on 30 September 2006). This information should be read in conjunction with "Use of Proceeds", "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 30 September 2006			
	Historical		**As adjusted**(1)	
	(Amounts in thousands of Lari)	*(Amounts in thousands of U.S. dollars)*(2)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(2)
Long-term debt, net of current portion:(3)				
Senior long-term debt	102,975	59,318	446,875	257,416
Subordinated long-term debt	52,065	29,991	52,065	29,991
Total long-term debt, net of current portion	**155,040**	**89,309**	**498,940**	**287,408**
Equity:				
Ordinary shares(4)	16,738	9,642	24,178	13,927
Share premium(5)	59,866	34,485	278,306	160,315
Treasury shares	(201)	(116)	(201)	(116)
Retained earnings	54,231	31,239	54,231	31,239
Other reserves	5,285	3,044	5,285	3,044
Total equity attributable to shareholders	**135,919**	**78,294**	**361,799**	**208,410**
Minority interest	1,160	668	1,160	668
Total equity	**137,079**	**78,962**	**362,959**	**209,078**
Total capitalisation(6)	**292,119**	**168,271**	**861,899**	**496,486**

Notes:

(1) Adjusted in the "As adjusted" column to reflect Bank of Georgia's borrowing under the Loan Agreement, but not adjusted for any other changes subsequent to 30 September 2006, save as noted in footnotes (4) and (5) below.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) "Long term debt, net of current portion" excludes indebtedness with a maturity of less than one year.

(4) Adjusted in the "As adjusted" column to reflect the offering of 7.4 million new Bank of Georgia ordinary shares in the form of GDRs in November 2006 (as if such offering had occurred on 30 September 2006).

(5) Adjusted in the "As adjusted" column to reflect the net proceeds from the offering of new Bank of Georgia ordinary shares in the form of GDRs in November 2006 (as if such offering had occurred on 30 September 2006) in excess of the nominal value of those shares.

(6) Total capitalisation is the sum of long-term debt (net of current portion), minority interest and total equity. Capitalisation as of 30 September 2006 does not include the following amounts outstanding for credits related commitments as of September 2006.

	As of 30 September 2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of U.S. dollars)*
Undrawn loan commitments	26,734	15,400
Letters of credit	24,681	14,217
Guarantees	66,134	38,096
Total credit related commitments	**117,549**	**67,713**

In November 2006, the Bank raised net proceeds of U.S.$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new Bank of Georgia ordinary shares in the form of GDRs pursuant to an initial public offering.

In January 2007, Bank of Georgia drew down U.S.$12.5 million from the U.S.$12.5 million FMO loan facility entered into by Bank of Georgia in December 2006.

In January 2007, Bank of Georgia drew down U.S.$5.0 million from EBRD loan and participation facilities entered into by Bank of Georgia in 2005. Of this amount, U.S.$1.8 million was a loan to Bank of Georgia and U.S.$3.2 million was EBRD's participation in the form of a deposit with Bank of Georgia to be utilised directly by a sub-borrower.

Save as disclosed above, there has been no material change in the Bank's total capitalisation since 30 September 2006.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information of Bank of Georgia as of and for the years ended 31 December 2005, 2004 and 2003, which has been derived from and which should be read in conjunction with and is qualified in its entirety by the Annual Financial Statements, and the notes thereto, included elsewhere in this Prospectus. The summary information below as of 30 September 2006 and for the nine month periods ended 30 September 2006 and 2005 has been derived from and should be read in conjunction with and is qualified in its entirety by the Interim Financial Statements and the notes thereto also included elsewhere in this Prospectus. In the opinion of Management of Bank of Georgia, these Financial Statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby. Investors should not rely on interim results as being indicative of results that Bank of Georgia may expect for the full year ended 31 December 2006. The information should be read in conjunction with, and is qualified in its entirety by reference to, such Financial Statements, as well as the sections entitled "Capitalisation and Indebtedness" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Solely for the convenience of the reader, certain information derived from the Financial Statements included herein has been converted into U.S. dollars based on the official exchange rate as reported by the NBG at the end of the relevant period, in the case of balance sheet data, or as being the average of the daily rates during the period, in the case of consolidated statement of operations data.

The amounts translated in U.S. dollars should not be construed as representations that the Georgian 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

	Year ended 31 December				Nine months ended 30 September		
	2003	**2004**	**2005**		**2005**	**2006**	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
						(Unaudited)	
Interest income	32,299	33,758	51,832	28,909	36,007	63,123	36,361
Interest expense................	7,880	9,919	13,081	7,296	9,042	21,800	12,558
Net interest income before impairment of interest earning assets...........................	**24,419**	**23,839**	**38,751**	**21,613**	**26,965**	**41,323**	**23,803**
Impairment of interest earning assets	4,105	20,511	6,228	3,474	5,602	10,665	6,143
Net interest income after impairment of interest earning assets...........................	**20,314**	**3,328**	**32,523**	**18,139**	**21,363**	**30,658**	**17,660**
Fee and commissions income.........................	11,751	13,059	16,753	9,344	11,720	19,783	11,396
Fee and commissions expense	2,895	2,745	2,385	1,330	2,268	3,885	2,238
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**9,452**	**15,898**	**9,158**
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**7,753**	**15,014**	**8,649**
Other non-interest expense........................	**21,495**	**26,772**	**41,257**	**23,010**	**26,658**	**39,607**	**22,815**
Income (loss) before income tax expense	**11,585**	**(8,130)**	**16,735**	**9,334**	**11,910**	**21,963**	**12,652**
Net income (loss) for the period	**9,154**	**(7,349)**	**13,627**	**7,600**	**8,815**	**17,301**	**9,966**
Earnings (loss) per share...........................	**0.93**	**(0.78)**	**1.14**	**0.64**	**0.6**	**1.12**	**0.645**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Consolidated Balance Sheet Data

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Assets						
Cash and cash equivalents	43,626	102,747	57,236	31,922	116,483	67,099
Amounts due from credit institutions	16,117	25,585	33,398	18,627	56,192	32,369
Loans to customers, net	141,780	169,868	297,376	165,854	560,403	322,813
Net investment in lease	–	598	4,314	2,406	9,053	5,215
Investment securities	1,742	19,628	10,607	5,916	6,414	3,695
Property and equipment, net	20,024	27,159	35,815	19,975	52,627	30,315
Intangible assets, net	2,025	6,286	7,685	4,286	25,551	14,718
Income tax assets	–	3,407	2,570	1,433	–	–
Prepayments	–	157	455	254	3,207	1,847
Other assets	4,808	7,737	11,114	6,198	26,784	15,428
Total assets	**230,122**	**363,172**	**460,570**	**256,871**	**856,714**	**493,499**
Liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	223,203	128,573
Amounts owed to customers	123,573	252,129	269,952	150,559	467,993	269,581
Debt securities issued	–	–	1,143	637	1,128	650
Income tax liabilities	771	203	2,087	1,164	3,881	2,236
Provisions	472	971	975	544	–	–
Other liabilities	428	6,075	16,078	8,967	23,430	13,496
Total liabilities	**175,481**	**307,712**	**369,108**	**205,860**	**719,635**	**414,536**
Equity						
Share capital	9,856	11,273	14,729	8,215	16,738	9,642
Share premium	4,530	13,376	32,922	18,361	59,866	34,485
Treasury shares	–	(73)	(81)	(45)	(201)	(116)
Retained earnings	24,930	23,911	37,427	20,874	54,231	31,239
Other reserves	15,325	5,492	5,369	2,994	5,285	3,045
Total equity attributable to shareholders	**54,641**	**53,979**	**90,366**	**50,400**	**135,919**	**78,295**
Minority interests	–	1,481	1,096	611	1,160	668
Total equity	**54,641**	**55,460**	**91,462**	**51,011**	**137,079**	**78,963**
Total liabilities and equity	**230,122**	**363,172**	**460,570**	**256,871**	**856,714**	**493,499**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Selected Financial Ratios

	Year ended 31 December			Nine months ended 30 September
	2003	2004	2005	2006
	(percentage)			
Profitability ratios:				
ROAA[1]	n/a[2]	n/a[3]	3.3	3.5[4]
ROAE[5]	n/a[2]	n/a[3]	18.5	20.2[4]
Net interest margin[6]	n/a[2]	10.9	11.9	10.0[4]
Interest expense to interest income	24.4	29.4	25.2	34.5
Net fee and commission income to total operating income[7]	23.8	26.3	22.4	22.0
Interest income to average interest earning assets[6]	n/a[2]	15.5	15.9	15.3[4]
Cost of funds[8]	n/a[2]	4.2	4.0	5.6[4]
Net spread[9]	n/a[2]	11.3	11.8	9.7[4]
Net non-interest income to total operating income[10]	34.3	39.1	39.7	42.8
Efficiency ratios:				
Other non-interest expense to average total assets	n/a[2]	9.0	10.0	8.0[4]
Salaries and other employee benefits to total operating income[11][12]	24.4	32.9	36.2	30.3
Salaries and other employee benefits to other non-interest expense[11]	42.1	48.2	56.3	55.2
Liquidity ratios (at period end):				
Net loans to total assets	61.6	46.8	64.6	65.4
Net loans to amounts owed to customers	114.7	67.4	110.2	119.7
Net loans to total deposits[12]	94.9	61.6	96.8	99.7
Net loans to total liabilities	80.8	55.2	80.6	77.9
Interest earning assets to total assets[6]	73.4	73.7	83.7	83.7
Liquid assets to total assets[13]	19.7	33.7	14.2	14.3
Total deposits to total assets[12]	64.9	76.0	66.7	65.6
Amounts owed to customers to total deposits	82.7	91.4	87.9	83.3
Amounts owed to customers to total equity (times)	2.3	4.5	3.0	3.4
Amounts due from credit institutions to amounts owed to credit institutions, except for borrowings from international credit institutions	62.3	107.8	89.9	59.7
Total equity to net loans	38.5	32.6	30.8	24.5
Leverage, times[14]	3.2	5.5	4.0	5.2
Asset quality:				
Allowance at period end for loan impairment to gross loans[15]	6.1	10.1	5.4	3.7
Impairment for period end of interest earning assets to average gross loans	n/a[2]	12.1	2.5	3.2[4]

Capital adequacy (at period end):				
Consolidated Tier I capital adequacy ratio(16)	39.6	32.1	23.0	19.2
Consolidated Total capital adequacy ratio(16)(17)	45.0	33.8	24.0	25.2
Standalone Tier I capital adequacy ratio(18)	39.6	31.8	23.6	19.8
Standalone Total capital adequacy ratio(18)(19)	45.0	36.3	23.8	24.4

Notes:

(1) Return on average total assets.

(2) Data not available.

(3) Not meaningful as the Bank had a net loss in 2004.

(4) Nine month average annualised in 2006.

(5) Return on average total equity.

(6) 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.

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

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

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

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

(11) Salaries and other employee benefits amounted to GEL 21.9 million (U.S.$12.6 million) as of 30 September 2006, GEL 16.6 million (U.S.$9.3 million), GEL 23.2 million (U.S.$12.9 million), GEL 12.9 million (U.S.$7.1 million) and GEL 9.1 million (U.S.$4.4 million) as of 30 September 2005, 31 December 2005, 2004 and 2003, respectively.

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

(13) Liquid assets include cash and cash equivalents and investment securities available for sale. Liquid assets amounted to GEL 122.6 million (U.S.$70.6 million) as of 30 September 2006 and GEL 65.6 million (U.S.$36.6 million), GEL 122.4 million (U.S.$67.1 million) and GEL 45.4 million (U.S.$21.9 million) as of 31 December 2005, 2004 and 2003, respectively.

(14) Total liabilities divided by total equity.

(15) Allowance for loan impairment amounted to GEL 21.3 million (U.S.$12.3 million) as of 30 September 2006 and GEL 16.9 million (U.S.$9.4 million), GEL 19.1 million (U.S.$10.5 million) and GEL 9.3 million (U.S.$4.5 million) as of 31 December 2005, 2004 and 2003, respectively.

(16) 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 130.8 million (U.S.$75.3 million) as of 30 September 2006, and GEL 84.9 million (U.S.$47.4 million), GEL 48.6 million (U.S.$26.6 million) and GEL 49.0 million (U.S.$23.6 million) as of 31 December 2005, 2004 and 2003, respectively. The consolidated risk weighted assets amounted to GEL 679.9 million (U.S.$391.6 million) as of 30 September 2006 and GEL 368.4 million (U.S.$205.5 million), GEL 151.1 million (U.S.$82.8 million) and GEL 123.9 million (U.S.$59.7 million) as of 31 December 2005, 2004 and 2003, respectively.

(17) 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 171.4 million (U.S.$98.7 million) as of 30 September 2006 and GEL 88.3 million (U.S.$49.2 million), GEL 51.0 million (U.S.$28.0 million) and GEL 55.8 million (U.S.$26.9 million) as of 31 December 2005, 2004 and 2003, respectively.

(18) 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 130.9 million (U.S.$75.4 million) as of 30 September 2006, and GEL 84.2 million (U.S.$47.0 million), GEL 48.7 million (U.S.$26.7 million) and GEL 49.0 million (U.S.$23.6 million), as of 31 December 2005, 2004, and 2003, respectively. The standalone risk weighted assets amounted to GEL 660.4 million (U.S.$380.4 million) as of 30 September 2006 and GEL 356.2 million (U.S.$198.7 million), GEL 153.0 million (U.S.$83.8 million) and GEL 123.9 million (U.S.$59.7 million) as of 31 December 2005, 2004 and 2003, respectively.

(19) 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 161.2 million (U.S.$92.9 million) as of 30 September 2006 and GEL 84.8 million (U.S.$47.3 million), GEL 55.6 million (U.S.$30.5 million) and GEL 55.8 million (U.S.$26.9 million) as of 31 December, 2005, 2004 and 2003, respectively.

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 2005, 2004 and 2003 and the nine months ended 30 September 2006 and 2005. Unless otherwise specified, the financial information presented in this discussion has been 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 derived from the Financial Statements included herein has been converted into U.S. dollars based on the official exchange rate as reported by the NBG at the end of the relevant period, in the case of balance sheet data, or as being the average of the daily rates during the period, in the case of income statement data.

The amounts translated in U.S. dollars should not be construed as representations that the Georgian 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 and investment banking. The Bank's retail banking activities include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans, POS loans and overdrafts), current and savings accounts and term deposits, credit cards and other bank card products and services, ATM services, Internet and SMS banking, payments of utility, mobile phone and other bills in branches and online, money transfers and remittances, standing orders, direct deposit services for wages and other monetary entitlements and other retail banking products and services. The Bank's corporate and investment banking products and services consist primarily of deposit accounts administration and cash management services, payroll services and corporate lending, as well as a range of trade finance operations, foreign exchange transactions, leasing, corporate finance advisory and capital-raising services. In addition, the Bank provides insurance, leasing, asset and wealth management and card processing services and engages in merchant banking activities.

As of 30 November 2006, Bank of Georgia was the largest bank in Georgia based on total equity, total assets (with a 27.8% market share) and total loans (with a 25.3% market share) and the second largest bank in Georgia based on total deposits (with a 23.1% market share), each ranking and market share according to information published by the NBG based on standalone financial information filed with the NBG by Georgian banks. These figures compare to a 17.8% market share based on total assets, an 18.2% market share based on total loans, and a 19.0% market share based on total deposits as of 31 December 2005.

Summary of Acquisitions

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

In December 2003, Bank of Georgia acquired a 35.0% equity interest in Galt & Taggart Securities, which was increased to 53.0% in 2004 and to 100.0% in 2005. The results of Galt & Taggart Securities have been consolidated in the Bank's Financial Statements since 28 December 2004.

In October 2004, Bank of Georgia increased its equity interest in Joint Stock Company Georgian Card ("**Georgian Card**") from 19.6% to 50.3%. This acquisition of Georgian Card shares included an acquisition of goodwill in the amount of GEL 0.2 million (U.S.$0.1 million). Bank of Georgia subsequently increased its shareholding in Georgian Card to 55.5%. The results of Georgian Card have been consolidated in the Bank's Financial Statements since 20 October 2004.

In December 2004, Bank of Georgia acquired TbilUniversalBank ("**TUB**"), a Georgian commercial bank. The acquisition of TUB included an acquisition of goodwill in the amount of GEL 1.9 million (U.S.$1.0 million). At the time of the acquisition, TUB owned a 60.0% equity interest in Georgian Leasing Company ("**GLC**"), the second-largest leasing company in Georgia, and an 8.0% equity interest in Galt & Taggart Securities. The results of TUB and GLC have been consolidated in the Bank's Financial Statements since 31 December 2004. In October 2005, Bank of Georgia increased its effective ownership interest in GLC to 75.0% and in March 2006 the Bank increased its effective ownership interest in GLC to 100.0%.

In December 2004, Bank of Georgia acquired BCI, one of the leading insurance companies in Georgia offering a broad spectrum of insurance services to both corporate and retail customers. The acquisition of BCI included an acquisition of goodwill in the amount of GEL 2.3 million (U.S.$1.3 million). BCI is currently a wholly-owned subsidiary of the Bank. The results of BCI have been consolidated in the Bank's Financial Statements since 30 December 2004.

In October 2005, Bank of Georgia and BCI acquired 20.0% and 80.0%, respectively, of JSC Insurance Company EuroPace ("**EuroPace**"), a Georgian insurance company. The results of EuroPace have been consolidated in the Bank's Financial Statements since 18 October 2005.

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 (U.S.$11.5 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 29.9 million (U.S.$17.2 million) and the fair value of the acquired liabilities that was recognised by the Bank on acquisition was GEL 47.3 million (U.S.$27.2 million). The acquisition of these assets and liabilities included an acquisition of goodwill (based on a provisional price allocation) in the amount of GEL 17.3 million (U.S.$10.0 million). The Bank's results for the nine months ended 30 September 2006 include income and expenses, including impairment of interest earning assets, derived from such assets and liabilities from the date of the acquisition.

General Market Conditions and Operating Environment

The Bank's results of operations and financial condition are dependent on general economic conditions in Georgia. While there have been improvements in the Georgian economy in recent years, it continues to display characteristics of an emerging market, including, but not limited to, the existence of a currency that is not freely convertible in most countries outside Georgia and relatively high inflation as compared to inflation in developed countries. The following table sets out certain key Georgian economic indicators for the years ended 31 December 2005, 2004 and 2003 and the nine month period ended 30 September 2006.

	Year ended 31 December			Nine months ended 30 September
	2003	**2004**	**2005**	**2006**
Nominal gross domestic product (GDP) (billions of Lari)	8.6	9.8	11.6	9.8
Budget balance (millions of Lari)	(163)	(151)	(9)	84
CPI (period end) (Percentage)	7.0	7.5	6.2	6.0
Exchange rate (period end) (Lari per U.S. dollar)	2.08	1.83	1.79	1.74
Unemployment (Percentage)	11.5	12.6	13.8	n/a[(1)]

Source: Department of Statistics of Georgia; NBG.

Note:

(1) Data not available.

Certain developments in general market conditions in Georgia have had a significant impact on the Bank's financial results over the periods discussed. In particular, in the aftermath of the Rose Revolution, which occurred from November 2003 to January 2004, there was a significant decrease in the size of the "shadow economy" and corresponding growth in the banking sector. In addition, as the Georgian economy stabilised following the Rose Revolution in 2004, there was a build-up of liquidity in the Georgian banking system in 2004 and a consequent slowdown in lending activity in the Georgian banking sector in the second half of 2004.

Consolidated Results of Operations

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

	Year ended 31 December				Nine months ended 30 September		
	2003	2004	2005		2005	2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(1)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(2)
						(Unaudited)	
Interest income	32,299	33,758	51,832	28,909	36,007	63,123	36,361
Interest expense...............	7,880	9,919	13,081	7,296	9,042	21,800	12,558
Net interest income before impairment of interest earning assets....	**24,419**	**23,839**	**38,751**	**21,613**	**26,965**	**41,323**	**23,808**
Impairment of interest earning assets	4,105	20,511	6,228	3,474	5,602	10,665	6,143
Net interest income after impairment of interest earning assets.............	**20,314**	**3,328**	**32,523**	**18,139**	**21,363**	**30,658**	**17,660**
Fee and commissions income.........................	11,751	13,059	16,753	9,344	11,720	19,783	11,396
Fee and commissions expense	2,895	2,745	2,385	1,330	2,268	3,885	2,238
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**9,452**	**15,898**	**9,158**
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**7,753**	**15,014**	**8,649**
Other non-interest expense.......................	**21,495**	**26,772**	**41,257**	**23,010**	**26,658**	**39,607**	**22,815**
Income (loss) before income tax expense	**11,585**	**(8,130)**	**16,735**	**9,334**	**11,910**	**21,963**	**12,652**
Net income (loss) for the period...................	**9,154**	**(7,349)**	**13,627**	**7,600**	**8,815**	**17,301**	**9,966**
Earnings (loss) per share...........................	**0.93**	**(0.78)**	**1.14**	**0.64**	**0.6**	**1.12**	**0.645**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Interest Income

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

	Year ended 31 December				Nine months ended 30 September		
	2003	2004	2005		2005	2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
						(Unaudited)	
Interest income attributable to:							
Loans to customers	30,004	31,432	47,247	26,351	32,475	59,764	34,426
Debt securities owned	2,295	1,654	2,664	1,486	2,113	344	198
Amounts due from credit institutions	–	672	1,525	851	1,168	2,100	1,210
Net investment in lease	–	–	396	221	251	915	527
Total interest income	**32,299**	**33,758**	**51,832**	**28,909**	**36,007**	**63,123**	**36,361**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Interest-bearing assets						
Cash and cash equivalents	43,626	102,747	57,236	31,922	116,483	67,099
Amounts due from credit institutions	16,117	25,585	33,398	18,627	56,192	32,369
Loans to customers, net	141,780	169,868	297,376	165,854	560,403	322,813
Net investment in lease	–	598	4,314	2,406	9,053	5,215
Investment securities	1,742	19,628	10,607	5,916	6,414	3,695
Total interest-bearing assets	**203,265**	**318,426**	**402,931**	**224,725**	**748,545**	**431,191**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Interest income increased by 53.5% to GEL 51.8 million (U.S.$28.9 million) in 2005 from GEL 33.8 million (U.S.$18.5 million) in 2004 and increased by 4.5% in 2004 compared to GEL 32.3 million (U.S.$15.6 million) in 2003. The increases were primarily attributable to increases in interest income on loans to customers.

Interest income on loans to customers increased by 50.3% in 2005 to GEL 47.2 million (U.S.$26.3 million) from GEL 31.4 million (U.S.$17.2 million) in 2004 and increased by 4.8% in 2004 from GEL 30.0 million (U.S.$14.5 million) in 2003. While the size of the Bank's net loans increased by 19.8% from GEL 141.8 million (U.S.$68.3 million) as of 31 December 2003 to GEL 169.9 million (U.S.$93.1 million) as of 31 December 2004, this increase was in part due to the acquisition in December 2004 of TUB. The average size of the Bank's loan portfolio increased only slightly from 2003 to 2004. Growth in the size of the Bank's loan portfolio during 2004 was constrained by the slowdown in lending activity in the Georgian banking sector in the aftermath of the Rose Revolution in the second half of 2004. The increase in interest income on loans to customers from 2004 to 2005 was primarily a result of the significant growth in the Bank's net loans, which increased by 75.1% from GEL 169.9 million (U.S.$93.1 million) as of 31 December 2004 to GEL 297.4 million (U.S.$165.9 million) as of 31 December 2005. The increase in the size of the Bank's loan portfolio from 2004 to 2005 was due to increases in demand for retail and corporate loans in line with continued improvement in the Georgian economy. The acquisition of TUB in December 2004 also contributed to the increase in interest income on loans to customers from 2004 to 2005. The increases in interest income on loans to customers over the years discussed were offset in part by a continuous decrease in average interest rates, which was in part due to competitive pressures causing the Bank to lower the interest rates on its loans. The average interest rates on the Bank's loans to customers were 24.0%, 24.0% and 21.0% for GEL loans, and 21.0%, 20.0% and 15.0% for foreign currency loans, in 2003, 2004 and 2005, respectively.

Interest income on the Bank's securities portfolio was GEL 2.7 million (U.S.$1.5 million), GEL 1.7 million (U.S.$0.9 million) and GEL 2.3 million (U.S.$1.1 million) in 2005, 2004 and 2003, respectively. The Bank had debt securities of GEL 10.6 million (U.S.$5.9 million), GEL 19.6 million (U.S.$10.7 million) and GEL 1.7 million (U.S.$0.8 million) as of 31 December 2005, 2004 and 2003, respectively. The Bank's debt securities comprised Ministry of Finance treasury bills as of each date and also included corporate bonds as of 31 December 2005. Annual fluctuations in interest income on 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 securities portfolio in 2004 was lower than in 2003 due to a significant decrease in the average yield of Ministry of Finance treasury bills from 2003 to 2004. The increase in interest income on the Bank's securities portfolio from 2004 to 2005 was attributable to a higher average amount of securities held during 2005 and the addition in 2005 of corporate bonds into the Bank's securities portfolio, which generally have higher yields than Ministry of Finance treasury bills.

Interest earned on amounts due from credit institutions was GEL 1.5 million (U.S.$0.8 million), GEL 0.7 million (U.S.$0.4 million) and GEL 0.7 million (U.S.$0.3 million) in 2005, 2004 and 2003, respectively. Amounts due from credit institutions in the years discussed comprised principally interbank deposits and short-term interbank loans.

The Bank had interest income of GEL 63.1 million (U.S.$36.3 million) for the nine months ended 30 September 2006 compared to GEL 36.0 million (U.S.$20.1 million) for the nine months ended 30 September 2005. The increase was attributable primarily to a 84.0% increase in interest income on loans to customers, which increased to GEL 59.8 million (U.S.$34.4 million) for the nine months ended 30 September 2006 from GEL 32.5 million (U.S.$18.1 million) for the nine months ended 30 September 2005. The increase in interest income on loans to customers was due to significant growth in the size of the Bank's net loans to customers, which increased by 88.4% from GEL 297.4 million (U.S.$165.9 million) on 31 December 2005 to GEL 560.4 million (U.S.$322.8 million) on 30 September 2006. The effective average interest rate on the Bank's loans to customers was 21.0% and 23.0% for GEL loans, and 15.0% and 16.0% for foreign currency loans, for the year ended 31 December 2005 and the nine months ended 30 September 2006, respectively. The increase in average yield over the periods indicated for GEL loans was largely due to an increase in the proportion of higher yielding retail loans in the Bank's loan portfolio, as well as a tightening of the monetary policy of the NBG aimed at slowing down Lari inflation. The increase in average yield over the periods indicated for foreign currency loans was largely due to an increase in the proportion of higher yielding retail loans in the Bank's loan portfolio. Interest income on the Bank's securities portfolio was GEL 0.3 million (U.S.$0.2 million) and GEL 2.1 million (U.S.$1.2 million) in the nine months ended 30 September 2006 and 2005 respectively. The decrease in interest earned on the Bank's securities portfolio over the periods indicated was attributable to decrease in investment securities portfolio from GEL 10.6 million (U.S.$5.9 million) at 31 December 2005 to GEL 6.4 million (U.S.$3.7 million) at 30 September 2006. Interest earned on amounts due from credit institutions was GEL 2.1 million (U.S.$1.2 million) and GEL 1.2 million (U.S.$0.7 million) in the nine months ended 30 September 2006 and 2005, respectively. This increase was attributable to higher average balances held with credit institutions in the first nine months of 2006 compared to the first nine months of 2005.

Interest Expense

Interest expense comprises interest expense on amounts owed to customers, interest expenses 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				**Nine months ended 30 September**		
	2003	**2004**	**2005**		**2005**	**2006**	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(1)]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(2)]
						(Unaudited)	
Interest expense attributable to:							
Amounts owed to customers	5,347	6,819	9,162	5,110	6,444	12,451	7,172
Amounts owed to credit institutions....................	2,533	3,100	3,893	2,171	2,594	9,219	5,311
Debt securities issued	–	–	26	15	4	130	75
Total interest expense	**7,880**	**9,919**	**13,081**	**7,296**	**9,042**	**21,800**	**12,558**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Interest-bearing liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	223,203	128,573
Amounts owed to customers	123,573	252,129	269,952	150,559	467,993	269,581
Debt securities issued	–	–	1,143	637	1,128	650
Total interest-bearing liabilities	**173,810**	**300,463**	**349,968**	**195,185**	**692,324**	**398,804**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Interest expense increased by 31.9% to GEL 13.1 million (U.S.$7.3 million) in 2005 from GEL 9.9 million (U.S.$5.4 million) in 2004 and increased 25.9% in 2004 from GEL 7.9 million (U.S.$3.8 million) in 2003. The interest expense increases from 2003 to 2004 and from 2004 to 2005 were primarily due to increases in interest on amounts owed to customers. The increases in interest on amounts owed to customers over the periods discussed were primarily due to increases in interest on time deposits due to increases in the amount of time deposits. The increases from 2003 to 2004 and from 2004 to 2005 were also attributable to increases in average amounts owed to credit institutions. The increase in amounts owed to credit institutions from 2003 to 2004 was primarily due to an increase in amounts owed to the NBG.

Customer account balances increased by 7.1% in 2005 to GEL 270.0 million (U.S.$150.6 million) from GEL 252.1 million (U.S.$138.1 million) in 2004 and increased by 104.0% in 2004 from GEL 123.6 million (U.S.$59.6 million) in 2003. The increases in customer account balances from 2003 to 2004 and from 2004 to 2005 were largely attributable to general economic growth in Georgia.

The average interest rates paid on interest-bearing customer account balances in Lari for 2005, 2004 and 2003 were 10.0%, 5.0% and 5.0%, respectively. The average interest rates paid on interest bearing customer balances in foreign currencies (mainly U.S. dollars) for 2005, 2004 and 2003 were 8.0%, 7.0% and 9.0%, respectively. Foreign currency customer account balances at 31 December 2005, 2004 and 2003 accounted for 71.7%, 76.2% and 84.4%, respectively, of the total balances of customer accounts.

Interest expense increased by 141.1% for the nine months ended 30 September 2006 to GEL 21.8 million (U.S.$12.6 million) from GEL 9.0 million (U.S.$5.0 million) for the nine months ended 30 September 2005. The increase in the nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005 was a result of an increase in interest expense on amounts owed to customers and in interest expense on amounts owed to credit institutions. Effective average interest rates paid on interest bearing customer account balances for the nine months ended 30 September 2006 and the year ended 31 December 2005 for the GEL customer accounts were 7.0% and 10.0%, respectively. Effective average interest rates paid on interest bearing customer account balances for the nine months ended 30 September 2006 and the year ended 31

December 2005 for the foreign currency customer accounts were 8.0% and 8.0%, respectively. Foreign currency customer deposit balances at 30 September 2006 and 31 December 2005 accounted for 65.1% and 71.7%, respectively, of the total balances of customer accounts at each date. Customer deposits in foreign currencies are substantially all denominated in U.S. dollars.

Net Interest Income Before Impairment of Interest Earning Assets

Net interest income before impairment of interest earning assets increased by 62.6% in 2005 to GEL 38.8 million (U.S.$21.6 million) from GEL 23.8 million (U.S.$13.0 million) in 2004 and decreased by 2.4% in 2004 from GEL 24.4 million (U.S.$11.8 million) in 2003. The decrease from 2003 to 2004 was due to a larger increase in interest expense than in interest income between the two years, which in turn was primarily attributable to the increase in interest expense due to the increase in amounts owed to customer from 2003 to 2004 while average portfolio of loans to customers increased due to acquisition of TUB in December 2004. Interest income on TUB's portfolio prior to acquisition did not form part of the Bank's interest income in 2004. The increase from 2004 to 2005 was due to the larger increase in interest income than in interest expense between the two years, which in turn was primarily due to growth in the size of the Bank's loan portfolio.

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 17.3% in 2003 compared to 10.9% in 2004. The decrease in net interest margin from 2003 to 2004 was primarily due to an increase closer to the end of the year 2004 in average interest earning assets as a result of the acquisition in December 2004 of TUB, a significant increase in low interest earning assets such as time deposits with credit institutions with effective maturities of up to 90 days and a significantly higher growth in average interest bearing liabilities compared with the growth in average interest earning assets. Interest rates were relatively stable between the two years. The Bank's net interest margin was 11.9% in 2005 compared to 10.9% in 2004. The increase in net interest margin from 2004 to 2005 was primarily attributable to an increase in loans to customers, which was offset in part by a decrease in average interest rates between the two years.

Net interest income before impairment of interest earning assets increased by 53.2% for the nine months ended 30 September 2006 to GEL 41.3 million (U.S.$23.8 million) from GEL 27.0 million (U.S.$15.1 million) for the nine months ended 30 September 2005 primarily as a result of an increase in the size of the Bank's loan portfolio between the two periods, which was partially offset by the effects of a decrease in net interest margin. The Bank's annualised net interest margin was 10.0% for the nine months ended 30 September 2006.

Impairment of Interest Earning Assets

Impairment of interest earning assets was GEL 6.2 million (U.S.$3.5 million) in 2005, as compared to GEL 20.5 million (U.S.$11.2 million) in 2004 and GEL 4.1 million (U.S.$2.0 million) in 2003. The increase from 2003 to 2004 and the decrease from 2004 to 2005 were primarily a result of the recognition of GEL 20.5 million (U.S.$11.2 million) in provisions for loan losses in 2004 in connection with the re-classification of certain of the Bank's loans in connection with the change in the Bank's management. Allowance for loan impairment was GEL 9.3 million (U.S.$4.5 million) (or 6.1% of gross total loans), GEL 19.1 million (U.S.$10.5 million) (or 10.1% of gross total loans) and GEL 16.9 million (U.S.$9.4 million) (or 5.4% of total gross loans) as of 31 December 2003, 2004 and 2005, respectively.

Impairment of interest earning assets was GEL 10.7 million (U.S.$6.2 million) in the nine months ended 30 September 2006, as compared to GEL 5.6 million (U.S.$3.1 million) in the nine months ended 30 September 2005. The increase was due to the increase in the size of the Bank's average gross loan portfolio, which increased by 78.0% from GEL 251.6 million (U.S.$140.3 million) on 31 December 2005 to GEL 448.0 million (U.S.$258.1 million) on 30 September 2006. Allowance for loan impairment was GEL 21.3 million (U.S.$12.3 million) (or 3.7% of total gross loans) as of 30 September 2006.

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 in 2005 was GEL 32.5 million (U.S.$18.1 million) as compared to GEL 3.3 million (U.S.$1.8 million) in 2004 and GEL 20.3 million (U.S.$9.8 million) in 2003, and the Bank's net interest income after impairment of interest earning assets for the nine months ended 30 September 2006 was GEL 30.7 million (U.S.$17.7 million) as compared to GEL 21.4 million (U.S.$11.9 million) for the nine months ended 30 September 2005.

Net Fees and Commissions Income

Net fees and commissions income comprise fee and commission income from settlements operations, guarantees and letters of credit, cash collection, currency conversion operations, securities operations, consulting and other fees and commissions income, less fees and commissions expenses from settlements operations, cash operations currency conversion 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				Nine months ended 30 September		
	2003	2004	2005		2005	2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)		
Settlement operations	5,486	6,941	9,053	5,049	6,246	10,342	5,957
Guarantees and letters of credit	2,352	2,219	2,913	1,625	2,007	3,618	2,084
Cash collection	2,473	2,399	2,870	1,601	1,987	2,998	1,727
Brokerage service fee	960	998	780	435	69	1	1
Currency conversion operations	–	–	573	320	552	588	339
Advisory	–	–	133	74	26	187	108
Other[3]	480	502	431	240	833	2,049	1,180
Fees and commissions income	**11,751**	**13,059**	**16,753**	**9,344**	**11,720**	**19,783**	**11,396**
Settlement operations	1,289	1,306	1,171	653	1,215	1,576	908
Guarantees and letter of credit	546	882	804	448	510	803	463
Cash collection	–	–	–	–	–	88	50
Cash operations...............	528	362	245	137	195	37	21
Currency conversion operations	144	153	55	31	45	–	–
Other[4]	388	42	110	61	303	1,381	796
Fees and commissions expense	**2,895**	**2,745**	**2,385**	**1,330**	**2,268**	**3,885**	**2,238**
Net fees and commissions income ..	**8,856**	**10,314**	**14,368**	**8,014**	**9,452**	**15,898**	**9,158**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Other fees and commissions income includes fee and commission income from automobile loans, the use of individual safes and certain non-recurring fee and commissions income.

(4) Other fees and commissions expense includes fee and commission expenses resulting from advisory services, NBG credit auction fees, expenses associated with the publishing of information and fees associated with legal and regulatory database updates.

Net fees and commissions income increased by 39.3% in 2005 to GEL 14.4 million (U.S.$8.0 million) from GEL 10.3 million (U.S.$5.6 million) in 2004 and increased 16.5% in 2004 from GEL 8.9 million (U.S.$4.3 million) in 2003. The increases in net fees and commissions income from 2003 to 2004 and from 2004 to 2005 were each due to increases in settlements operations, sales of fee generating products and services to existing and new corporate and retail banking customers, an increase in the number of retail customer accounts and an increase in the general volume of banking operations due to general economic growth in Georgia. Fees and commissions expense decreased by 13.1% in 2005 to GEL 2.4 million (U.S.$1.3 million) from GEL 2.7 million (U.S.$1.5 million) in 2004 and by 5.2% in 2004 from GEL 2.9 million (U.S.$1.4 million) in 2003.

Net fees and commissions income increased by 68.2% for the nine months ended 30 September 2006 to GEL 15.9 million (U.S.$9.2 million) compared to GEL 9.5 million (U.S.$5.3 million) for the nine months ended 30 September 2005. The increase in net fees and commissions income for the nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005 was due to organic growth in the Bank's fee and commission generating businesses and was also in part due to fee and commission income derived from the assets and liabilities of Intellect Bank, which were acquired by the Bank in February 2006.

Other Non-Interest Income

Other non-interest income comprises gains less losses from 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				Nine months ended 30 September		
	2003	**2004**	**2005**		**2005**	**2006**	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
						(Unaudited)	
Gains less losses from foreign currencies	3,868	4,848	6,507	3,629	4,665	7,893	4,547
Net insurance premiums earned	–	–	4,028	2,246	2,487	4,415	2,543
Other operating income ..	42	152	566	316	601	2,706	1,559
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**7,753**	**15,014**	**8,649**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

The Bank's other non-interest income in 2005 increased by 122.0% to GEL 11.1 million (U.S.$6.2 million) from GEL 5.0 million (U.S.$2.7 million) in 2004, which in turn represented an increase of 27.9% from GEL 3.9 million (U.S.$1.9 million) in 2003. The increase in other non-interest income from 2003 to 2004 was primarily due to an increase in the volume of the Bank's foreign currency transactions. The increase in the Bank's other non-interest income from 2004 to 2005 was primarily due to an increase in net insurance premiums earned due to the acquisitions of BCI and EuroPace in December 2004 and October 2005, respectively, and due to an increase in the volume of the Bank's foreign currency transactions.

The Bank's other non-interest income for the nine months ended 30 September 2006 increased by 93.7% to GEL 15.0 million (U.S.$8.6 million) from GEL 7.8 million (U.S.$4.4 million) for the nine months ended 30 September 2005. The increase in other non-interest income for the nine months ended 30 September 2006 compared to 30 September 2005 was attributable to an increase in the volume of the Bank's foreign currency transactions and an increase in net insurance premiums earned.

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 customers as opposed to proprietary trading on the Bank's own account. Net gains from foreign currencies increased by 34.2% in 2005 to GEL 6.5 million (U.S.$3.6 million) from GEL 4.8 million (U.S.$2.6 million) in 2004 and increased by 25.3% in 2004 from GEL 3.9 million (U.S.$1.9 million) in 2003. Net gains from foreign currencies increased by 69.2% for the nine months ended 30 September 2006 to GEL 7.9 million (U.S.$4.6 million) from GEL 4.7 million (U.S.$2.6 million) for the nine months ended 30 September 2005. 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 customers of the Bank's BCI and EuroPace insurance subsidiaries. The Bank had net insurance premiums earned of GEL 4.0 million (U.S.$2.2 million) in 2005 compared to nil in 2004 and 2003. The net insurance premiums earned in 2005 was a result of the acquisition of BCI in December 2004 and EuroPace in October 2005, and no such premiums were earned in 2004 and 2003 because the Bank did not own any insurance company prior to 30 December 2004. The Bank's insurance subsidiaries earned net insurance premiums for the nine months ended 30 September 2006 of GEL 4.4 million (U.S.$2.5 million) compared to GEL 2.5 million (U.S.$1.4 million) for the nine months ended 30 September 2005. The increase in the nine months ended 30 September 2006 compared to the nine months ended 30 September 2005 was a result of the acquisition of EuroPace in October 2005 and was also due to an increase in the amount and range of insurance products sold to corporate and retail customers, which was in turn in part attributable to general growth in the insurance market in Georgia.

Other Operating Income

Other operating income comprises gross brokerage fees generated by Galt & Taggart Securities and gross fee income from the Bank's leasing and card processing operations. Other operating income increased to GEL 0.6 million (U.S.$0.3 million) in 2005 from GEL 0.2 million (U.S.$0.1 million) in 2004 and GEL 0.04 million (U.S.$0.02 million) in 2003. The increase in other operating income from 2003 to 2004 was attributable to the increase in the volume of general banking operations. The increase in operating income from 2004 to 2005 was attributable to an increase in the Bank's gross brokerage fees and gross fee income from leasing and card processing operations. Other operating income increased by 350.2% for the nine months ended 30 September 2006 to GEL 2.7 million (U.S.$1.6 million) from GEL 0.6 million (U.S.$0.3 million) for the nine months ended 30 September 2005. The increase in operating income for the nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005 was a result of the increase in brokerage revenue and other revenue from the Bank's consolidated subsidiaries.

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 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				Nine months ended 30 September		
	2003	2004	2005		2005	2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
						(Unaudited)	
Salaries and other employee benefits	9,060	12,896	23,219	12,950	16,576	21,855	12,589
Administration expenses	8,006	9,372	10,883	6,070	7,727	13,304	7,664
Depreciation, amortisation and impairment	2,231	2,609	4,230	2,359	3,135	3,830	2,206
Net insurance claims incurred	–	–	786	438	269	1,358	782
Impairment/(reversal of impairment) of other assets and provisions	1,493	1,559	280	156	(1,049)	(740)	(426)
Other operating expenses	705	336	1,859	1,037	–	–	–
Other non-interest expense	**21,495**	**26,772**	**41,257**	**23,010**	**26,658**	**39,607**	**22,815**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

The Bank's other non-interest expense in 2005 increased by 54.1% to GEL 41.3 million (U.S.$23.0 million) from GEL 26.8 million (U.S.$14.7 million) in 2004, which in turn represented an increase of 24.5% from GEL 21.5 million (U.S.$10.4 million) in 2003. The increases from 2003 to 2004 and from 2004 to 2005 were primarily due to increases in salaries and employee benefits.

The Bank's other non-interest expense for the nine months ended 30 September 2006 increased by 48.6% to GEL 39.6 million (U.S.$22.8 million) from GEL 26.7 million (U.S.$14.9 million) for the nine months ended 30 September 2005. The increase was due to general growth in the Bank's operations between the two periods as well as overhead and integration costs associated with the Intellect Bank assets and liabilities acquired in February 2006.

Salaries and Other Employee Benefits

Salaries and other employee benefits includes salaries, share based compensation, bonuses and social security costs. Salaries and other employee benefits increased by 80.0% to GEL 23.2 million (U.S.$12.9 million) from GEL 12.9 million (U.S.$7.1 million) in 2004, which in turn represented an increase of 42.3% from GEL 9.1 million (U.S.$4.4 million) in 2003. Salaries and other employee benefits costs increased by 31.8% to GEL 21.9 million (U.S.$12.6 million) for the nine months ended 30 September 2006 from GEL 16.6 million (U.S.$9.3 million) for the nine months ended 30 September 2005. 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 and increases in the levels of employee salaries. As of 31 December 2003, 2004, 2005 and 30 September 2006, the Bank had a total of 878, 968, 1,174 and 1,956 employees, respectively. The increase in salaries and other employee benefits from 2004 to 2005 was also attributable to increased bonuses paid in 2005 as compared to 2004. 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 comprise 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 16.1% to GEL 10.9 million (U.S.$6.1 million) in 2005 from GEL 9.4 million (U.S.$5.2 million) in 2004, which in turn represented an increased of 17.1% from GEL 8.0 million (U.S.$3.9 million) in 2003. Administration expenses increased by 72.2% to GEL 13.3 million (U.S.$7.7 million) for the nine months ended 30 September 2006 from GEL 7.7 million (U.S.$4.3 million) for the nine months ended 30 September 2005. 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 51, 54, 56 and 119 branches as of 31 December 2003, 2004, 2005 and 30 November 2006, respectively.

Depreciation, Amortisation and Impairment

Depreciation, amortisation and impairment increased by 62.1% to GEL 4.2 million (U.S.$2.3 million) in 2005 from GEL 2.6 million (U.S.$1.4 million) in 2004, which in turn represented an increase of 16.9% from GEL 2.2 million (U.S.$1.1 million) in 2003. Depreciation, amortisation and impairment increased by 22.2% to GEL 3.8 million (U.S.$2.2 million) for the nine months ended 30 September 2006 from GEL 3.1 million (U.S.$1.7 million) for the nine months ended 30 September 2005. The increases over all of the periods discussed were attributable to increased investment in the Bank of Georgia's branch network and corresponding increases in tangible and intangible assets. Impairments of goodwill were not material over the periods discussed.

Net Insurance Claims Incurred

Net insurance claims incurred comprises insurance claims paid by the Bank's BCI and EuroPace insurance subsidiaries in the ordinary course of their business. Net insurance claims incurred were GEL 0.8 million (U.S.$0.4 million) in 2005 and were nil in each of 2004 and 2003. There were no insurance claims paid in 2003 or 2004 because the Bank had no insurance operations prior to its acquisition of BCI in December 2004 and EuroPace in October 2005. Net insurance claims incurred for the nine months ended 30 September 2006 was GEL 1.4 million (U.S.$0.8 million) compared to GEL 0.3 million (U.S.$0.2 million) for the nine months ended 30 September 2005. The increase in net insurance claims incurred from the nine months ended 30 September 2005 to the nine months ended 30 September 2006 was due to organic growth in the Bank's insurance business, as well as the acquisition of EuroPace in October 2005.

Impairment of Other Assets and Provisions

Impairment of other assets and provisions comprises allowances for impairment of investments in associates, other assets and guarantees and commitments. Impairment of other assets and provisions were GEL 0.3 million (U.S.$0.2 million) in 2005, as compared to GEL 1.6 million (U.S.$0.9 million) in 2004 and GEL 1.5 million (U.S.$0.7 million) in 2003. The decrease in impairment of other assets and provisions from 2004 to 2005 was primarily the result of decrease in impairment charge of other assets due to revaluation of foreclosed real estate and due to a decrease in impairment charge of guarantees and commitments. Impairment of other assets and provisions was a reversal of GEL 0.7 million (U.S.$0.4 million) for the nine months ended 30

September 2006 and a reversal of GEL 1.1 million (U.S.$0.6 million) for the nine months ended 30 September 2005. The decrease in the amount of the reversal in the nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005 was primarily the result of an increase in impairment charge of other assets in the nine months ended 30 September 2006 compared to the nine months ended 30 September 2005.

Other Operating Expenses

Other operating expenses comprise fines and penalties, expenses related to law suits, membership fees and other miscellaneous operating expenses. Other operating expenses decreased from GEL 0.7 million (U.S.$0.3 million) in 2003 to GEL 0.3 million (U.S.$0.2 million) in 2004 and increased to GEL 1.9 million (U.S.$1.1 million) in 2005. The increase from 2004 to 2005 was primarily the result of non-recurring fines, fees related to the lawsuits and membership fees. Other operating expenses for the nine months ended 30 September 2006 were GEL 0.9 million, which mainly consist of impairment of doubtful receivables, agent and brokerage fees of BCI, software maintenance, operating taxes for Georgian Card and other miscellaneous expenses of Bank of Georgia. Upon the recommendation of E&Y, "other operating expenses" have been reclassified as fees and commissions expenses in the Interim Financial Statements.

Income (Loss) Before Income Tax Expense

The Bank had income before income tax expense of GEL 16.7 million (U.S.$9.3 million), loss before income tax expense of GEL 8.1 million (U.S.$4.4 million) and income before income tax expense of GEL 11.6 million (U.S.$5.6 million) for the years ended 31 December 2005, 2004 and 2003, respectively. The loss in 2004 compared to the income in 2003 is largely attributable to a large increase in impairment of interest earning assets in 2004 as a result of the reclassification of certain of the Bank's loans after the change in the Bank's management at the end of 2004. The income in 2005 compared to the loss in 2004 was attributable to increased interest income (which was in turn due to significant growth in the Bank's loan portfolio), a large decrease in impairment of interest earning assets in 2005 as compared to 2004 and increased fee and commission income and non-interest income, including contribution to non-interest income in 2005 from the Bank's BCI and EuroPace insurance subsidiaries, which were acquired in December 2004 and October 2005, respectively.

The Bank had income before income tax expense of GEL 22.0 million (U.S.$12.7 million) for the nine months ended 30 September 2006 compared to GEL 11.9 million (U.S.$6.6 million) for the nine months ended 30 September 2005. The increase for the nine months ended 30 September 2006 compared to the nine months ended 30 September 2005 was largely attributable to increased interest income (which was in turn due to growth in the Bank's loan portfolio), increased fee and commission income and other non-interest income.

Income Tax Expense (Benefit)

The Bank had an income tax expense of GEL 2.4 million (U.S.$1.2 million), an income tax benefit of GEL 0.8 million (U.S.$0.4 million) and an income tax expense of GEL 3.1 million (U.S.$1.7 million) in 2003, 2004 and 2005, respectively. The income tax benefit in 2004 compared to the income tax expense in 2003 was due to the loss before income tax expense in 2004 as compared to income before income tax expense in 2003. The increase in income tax expenses in 2005 compared to 2004 was primarily the result of increased income before income tax expense in 2005 as compared to 2004. The Bank had income tax expenses of GEL 4.7 million (U.S.$2.7 million) and GEL 3.1 million (U.S.$1.7 million) for the nine months ended 30 September 2006 and 2005, respectively. The increase in income tax expenses for the nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005 was attributable to an increase in income before income tax expense.

The effective tax rate based on the income tax expense in the consolidated statement of operations was 18.6%, (9.6%) and 21.0% for 2005, 2004 and 2003 respectively. The effective tax rate was 21.2% and 26.0%

for the nine months ended 30 September 2006 and 2005, respectively. These effective tax rates differ from the Georgian statutory tax rate of 20.0% due to the tax effect of the items set out below. 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				Nine months ended 30 September		
	2003	**2004**	**2005**		**2005**	**2006**	
	(Amounts in thousands of Lari except percentages)	*(Amounts in thousands of Lari except percentages)*	*(Amounts in thousands of Lari except percentages)*	*(Amounts in thousands of U.S. dollars except percentages)*[(1)]	*(Amounts in thousands of Lari except percentages)*	*(Amounts in thousands of Lari except percentages)*	*(Amounts in thousands of U.S. dollars except percentages)*[(2)]
						(Unaudited)	
Income (loss) before taxation	**11,585**	**(8,130)**	**16,735**	**9,334**	**11,910**	**21,963**	**12,651**
Statutory tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Theoretical income tax expense (benefit) at the statutory rate	**2,317**	**(1,626)**	**3,347**	**1,867**	**2,382**	**4,393**	**2,531**
State securities taxed at the lower rate of 10.0%	(446)	(330)	(248)	(138)	(67)	(23)	(13)
Non tax-deductible expenses	560	747	115	64	781	345	199
Other[(3)]	–	428	(106)	(59)	(1)	(53)	(31)
Income tax expense (benefit)	**2,431**	**(781)**	**3,108**	**1,734**	**3,095**	**4,662**	**2,686**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Other comprises non-taxable revenues, tax charge of prior periods and other reconciling differences representing the change in unrecognised deferred tax assets and negative permanent difference accounting for the loss on exchange of a fixed asset that was deductible for tax declaration purposes but was not regarded as a loss according to IFRS.

Net Consolidated Income/(Loss) for the Year

The Bank had net consolidated income of GEL 13.6 million (U.S.$7.6 million), a net consolidated loss of GEL 7.3 million (U.S.$4.0 million) and net consolidated income of GEL 9.2 million (U.S.$4.4 million) for the years ended 31 December 2005, 2004 and 2003, respectively, for the reasons described above.

The Bank had net consolidated income of GEL 17.3 million (U.S.$10.0 million) for the nine months ended 30 September 2006 compared to net consolidated income of GEL 8.8 million (U.S.$4.9 million) for the nine months ended 30 September 2005, 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				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(1)]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(2)]
					(Unaudited)	
Assets						
Cash and cash equivalents	43,626	102,747	57,236	31,922	116,483	67,099
Amounts due from credit institutions	16,117	25,585	33,398	18,627	56,192	32,369
Loans to customers, net	141,780	169,868	297,376	165,854	560,403	322,813
Net investment in lease	–	598	4,314	2,406	9,053	5,215
Investment securities	1,742	19,628	10,607	5,916	6,414	3,695
Property and equipment, net	20,024	27,159	35,815	19,975	52,627	30,315
Intangible assets, net	2,025	6,286	7,685	4,286	25,551	14,718
Income tax assets	–	3,407	2,570	1,433	–	–
Prepayments	–	157	455	254	3,207	1,847
Other assets	4,808	7,737	11,114	6,198	26,784	15,428
Total assets	**230,122**	**363,172**	**460,570**	**256,871**	**856,714**	**493,499**
Liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	223,203	128,573
Amounts owed to customers	123,573	252,129	269,952	150,559	467,993	269,581
Debt securities issued	–	–	1,143	637	1,128	650
Income tax liabilities	771	203	2,087	1,164	3,881	2,236
Provisions	472	971	975	544	–	–
Other liabilities	428	6,075	16,078	8,967	23,430	13,496
Total liabilities	**175,481**	**307,712**	**369,108**	**205,860**	**719,635**	**414,536**
Equity						
Share capital	9,856	11,273	14,729	8,215	16,738	9,642
Share premium	4,530	13,376	32,922	18,361	59,866	34,485
Treasury shares	–	(73)	(81)	(45)	(201)	(116)
Retained earnings	24,930	23,911	37,427	20,874	54,231	31,239
Other reserves	15,325	5,492	5,369	2,994	5,285	3,045
Total equity attributable to shareholders	**54,641**	**53,979**	**90,366**	**50,400**	**135,919**	**78,295**
Minority interests	–	1,481	1,096	611	1,160	668
Total equity	**54,641**	**55,460**	**91,462**	**51,011**	**137,079**	**78,963**
Total liabilities and equity	**230,122**	**363,172**	**460,570**	**256,871**	**856,714**	**493,499**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Total Assets

As of 31 December 2005, the Bank had total assets of GEL 460.6 million (U.S.$256.9 million), as compared to total assets of GEL 363.2 million (U.S.$199.0 million) as of 31 December 2004 and GEL 230.1 million (U.S.$110.9 million) as of 31 December 2003.

The 57.8% increase from GEL 230.1 million (U.S.$110.9 million) as of 31 December 2003 to GEL 363.2 million (U.S.$199.0 million) as of 31 December 2004 was primarily attributable to an increase in cash and cash equivalents and an increase in loans to customers, net. Growth in the size of the Bank's loan portfolio during 2004 was constrained by the slowdown in lending activity in the Georgian banking sector in the aftermath of the Rose Revolution in the second half of 2004. The increase in cash and cash equivalents was a result of this excess liquidity in the banking system and consequent slowdown in lending activity. In addition, growth in the Bank's lending activity slowed in 2004 as compared to 2003 in connection with the change in the Bank's management and reclassification of certain loans in the fourth quarter of 2004.

The 26.8% increase from GEL 363.2 million (U.S.$199.0 million) as of 31 December 2004 to GEL 460.6 million (U.S.$256.9 million) as of 31 December 2005 was primarily due to a 75.1% increase in loans to customers, net, from GEL 169.9 million (U.S.$93.1 million) as of 31 December 2004 to GEL 297.4 million (U.S.$165.9 million) as of 31 December 2005, which was offset in part by a decrease in cash and cash equivalents. Both of these changes were in line with increased lending activity and general growth in the Georgian economy.

As of 30 September 2006, the Bank had total assets of GEL 856.7 million (U.S.$493.5 million), as compared to total assets of GEL 460.6 million (U.S.$256.9 million) as of 31 December 2005. The 86.0% increase from GEL 460.6 million (U.S.$256.9 million) as of 31 December 2005 to GEL 856.7 million (U.S.$493.5 million) as of 30 September 2006 was primarily due to an increase in loans to customers, in line with general improvement in the Georgian economy.

Total Liabilities

As of 31 December 2005, the Bank had total liabilities of GEL 369.1 million (U.S.$205.9 million), as compared to GEL 307.7 million (U.S.$168.6 million) as of 31 December 2004 and GEL 175.5 million (U.S.$84.6 million) as of 31 December 2003. The 75.4% increase in total liabilities from 31 December 2003 to 31 December 2004 was primarily attributable to a 104.0% increase in amounts owned to customers, which was in turn primarily attributable to the excess liquidity in the banking system that built up following the Rose Revolution. The increase in total liabilities from 31 December 2004 to 31 December 2005 was primarily due to a 63.2% increase in amounts owed to credit institutions and, to a lesser extent, a 7.1% increase in amounts owed to customers. The large increase in amounts owed to credit institutions was due to increased borrowing from banks, including new loans from Commerzbank and EBRD, during 2005 in order to fund growth in the Bank's loan portfolio.

As of 30 September 2006, the Bank had total liabilities of GEL 719.6 million (U.S.$414.5 million) as compared to total liabilities of GEL 369.1 million (U.S.$205.9 million) as of 31 December 2005. The 95.0% increase in total liabilities from 31 December 2005 to 30 September 2006 was primarily due to increases in amounts owed to customers and amounts owed to credit institutions in line with the general expansion of the Bank's operations. The acquisition of the amounts owed to customers of Intellect Bank in February 2006 also contributed to the increase between the two periods.

Shareholders' Equity

Total shareholders' equity of the Bank amounted to GEL 135.9 million (U.S.$78.3 million) (15.9% of total assets) as of 30 September 2006, GEL 90.4 million (U.S.$50.4 million) (19.6% of total assets) as of 31

December 2005, GEL 54.0 million (U.S.$29.6 million) (14.9% of total assets) as of 31 December 2004 and GEL 54.6 million (U.S.$26.3 million) (23.7% of total assets) as of 31 December 2003. The slight decrease in total shareholders' equity as of 31 December 2004 compared to 31 December 2003 was a result of the net loss for the year sustained by the Bank in 2004. The large increase in total shareholders' equity from 31 December 2004 to 31 December 2005 was due to issues of an aggregate of 3.5 million new Bank of Georgia ordinary shares during 2005 and net income in 2005. The increase in total shareholders' equity as of 30 September 2006 compared to 31 December 2005 was primarily due to issues of an aggregate of approximately 2 million new Bank of Georgia shares during the first nine months of 2006 and net income in the first nine months of 2006.

Cash Flows

The following table summarises the Bank's cash flows for the years ended 31 December 2003, 2004 and 2005 and for the nine months ended 30 September 2005 and 2006.

	Year ended 31 December				Nine months ended 30 September		
	2003	2004	2005		2005	2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(1)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(2)
						(Unaudited)	
Net cash (used in)/from operating activities	**9,194**	**71,407**	**(64,593)**	**(36,025)**	**(50,923)**	**28,312**	**16,308**
Net cash (used in)/from investing activities							
Acquisition of subsidiaries, net of cash acquired	–	7,066	(735)	(410)	(159)	9,630	5,547
Proceeds from sale (purchase) of investment securities	7,712	(9,953)	9,021	5,031	3,583	5,291	3,048
Proceeds from sale (purchase) of investments in associates	(461)	–	(109)	(61)	588	571	329
Sale (purchase) of property and intangible assets	(5,197)	(6,106)	(12,560)	(7,005)	(5,406)	(13,012)	(7,495)
Net cash (used in)/ from investing activities	**2,054**	**(8,993)**	**(4,383)**	**(2,445)**	**(1,394)**	**2,480**	**1,429**
Cash flows from financing activities							
Proceeds from issue of share capital	–	–	21,641	12,070	10,639	30,297	17,452
Sale (purchase) of treasury shares(1)	–	1,298	(91)	(51)	146	(1,561)	(899)
Purchase of additional interest in existing subsidiaries, net of cash acquired		–	(550)	(307)	295	–	–
Proceeds from debt securities issued	–	–	1,143	637	288	(15)	(9)
Dividends paid to the shareholders of the Bank	(2,125)	(2,376)	(9)	(5)	(2)	(568)	(327)
Net cash (used in)/ from financing activities	**(2,125)**	**(1,078)**	**22,499**	**12,548**	**11,366**	**28,153**	**16,217**
Effect of exchange rates changes on cash and cash equivalents	636	(2,215)	966	539	(41)	302	174
Net increase/(decrease) in cash and cash equivalents	**9,759**	**59,121**	**(45,511)**	**(25,383)**	**(40,992)**	**59,247**	**34,128**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

Cash Flows from Operating Activities

Net cash used in operating activities was GEL 64.6 million (U.S.$36.0 million) in 2005, compared to net cash from operating activities of GEL 71.4 million (U.S.$39.1 million) and GEL 9.2 million (U.S.$4.4 million) in 2004 and 2003 respectively. During 2004, as the Georgian economy stabilised in the aftermath of the Rose Revolution, the liquidity position of the Bank increased substantially through growth in customer deposits of GEL 128.6 million (U.S.$70.5 million). In 2005, this liquidity from customer deposits (as well as deposits from other banks) and cash flow from net income was used to fund an increase in net loans to customers of GEL 127.5 million (U.S.$71.1 million) compared to 2004. This funding of loans was the primary reason behind a net cash outflow from operating activities in 2005.

Net cash from operating activities was GEL 28.3 million (U.S.$16.3 million) for the nine months ended 30 September 2006 compared to net cash used in operating activities of GEL 50.9 million (U.S.$28.4 million) for the nine months ended 30 September 2005. This change was primarily the result of the increase in net loans to customers between the two periods being more than offset by the increase in amounts owed to credit institutions and amounts owed to customers between the two periods.

Cash Flows (Used in/from) Investing Activities

Net cash (used in)/from investing activities was a cash outflow of GEL 4.4 million (U.S.$2.5 million) in 2005, a cash outflow of GEL 9.0 million (U.S.$4.9 million) in 2004 and a cash inflow of GEL 2.1 million (U.S.$1.0 million) in 2003. The change from 2003 to 2004 was mainly attributable to a cash inflow of GEL 7.7 million (U.S.$3.7 million) in 2003 from proceeds of the sale of investment securities compared to a cash outflow of GEL 10.0 million (U.S.$5.5 million) in 2004 from purchases of investment securities. The cash outflow in 2004 was offset in part by net cash acquired of GEL 7.1 million (U.S.$3.9 million) from the acquisition of subsidiaries in 2004. The change from 2004 to 2005 was mainly attributable to proceeds from the sale of investment securities (mainly treasury bills) of GEL 9.0 million (U.S.$5.0 million) in 2005 as compared to a cash outflow of GEL 10.0 million (U.S.$5.5 million) in 2004 from purchases of investment securities (offset in part by net cash acquired of GEL 7.1 million (U.S.$3.9 million) from the acquisition of subsidiaries in 2004).

The Bank's capital expenditures from 1 January 2003 through 30 September 2006 were primarily made for expansion and modernisation of Bank of Georgia's branch network, expansion of Bank of Georgia's ATM network and investment in information technology hardware and software. In 2003, 2004 and 2005, respectively, the Bank had cash outflows of GEL 5.4 million (U.S.$2.6 million), GEL 6.3 million (U.S.$3.5 million) and GEL 13.0 million (U.S.$7.3 million) on purchases of property and intangible assets. The significant increase from 2004 to 2005 was attributable to the expansion of the Bank's operations following the replacement of the Bank's management in the fourth quarter of 2004.

Net cash from investing activities was GEL 2.5 million (U.S.$1.4 million) for the nine months ended 30 September 2006 compared to GEL 1.4 million (U.S.$0.8 million) used in investing activities for the nine months ended 30 September 2005. The change between the two periods was primarily due to the impact of the acquisition of subsidiaries and the proceeds from sale of investment securities. There was net cash received of GEL 9.6 million (U.S.$5.5 million) from the acquisition of subsidiaries in the nine months ended 30 September 2006. In the nine months ended 30 September 2005 and 2006, respectively, the Bank had cash outflows of GEL 5.4 million (U.S.$3.0 million) and GEL 13.0 million (U.S.$7.5 million) on purchases of property and intangible assets, gross. This increase was mainly attributable to expansion of the Bank's operations, branch and ATM networks, as well as investment in information technology hardware and software.

Cash Flows from Financing Activities

Net cash from financing activities was GEL 22.5 million (U.S.$12.5 million) in 2005 compared to net cash used in financing activities of GEL 1.1 million (U.S.$0.6 million) and GEL 2.1 million (U.S.$1.0 million) in 2004 and 2003 respectively. Cash flow used in financing activities in 2003 are dividends paid to shareholders of GEL 2.1 million (U.S.$1.2 million). Cash flow used in financing activities in 2004 reflect the Bank's purchase and subsequent sale of its own shares as treasury stock, with a net cash inflow of GEL 1.3 million (U.S.$0.7 million). This was offset by dividends paid to shareholders of GEL 2.4 million (U.S.$1.3 million).

Cash flow from financing activities in 2005 reflects proceeds from the issue of share capital of GEL 21.6 million (U.S.$12.0 million) and debt securities issued of GEL 1.1 million (U.S.$0.6 million).

Net cash from financing activities was GEL 28.2 million (U.S.$16.2 million) for the nine months ended 30 September 2006 compared to net cash from financing activities of GEL 11.4 million (U.S.$6.4 million) for the nine months ended 30 September 2005. This change was primarily the result of the proceeds from the issue of share capital of GEL 30.3 million (U.S.$17.5 million) in the nine months ended 30 September 2006.

Commitments and Contingencies

The Bank has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted to customers. 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.

	As of 31 December				**As of 30 September**	
	2003	**2004**	**2005**		**2006**	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(1)]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(2)]
					(Unaudited)	
Guarantees	16,781	19,454	34,777	19,396	66,134	38,096
Letters of credit	13,750	14,770	20,888	11,650	24,681	14,217
Undrawn loan commitments	9,091	8,783	15,751	8,785	26,734	15,400
Total credit related commitments	**39,622**	**43,007**	**71,416**	**39,831**	**117,549**	**67,713**
Operating lease commitments	11,277	8,161	5,613	3,131	8,765	5,049
Capital expenditure commitments	600	2	216	120	368	212
Provisions	(472)	(971)	(975)	(544)	–	–
Cash held as security against letters of credit and guarantees	(4,897)	(4,901)	(2,073)	(1,156)	(1,280)	(737)
Total financial commitments and contingencies	**46,130**	**45,298**	**74,197**	**41,382**	**125,402**	**72,237**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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 Standards established by the Bank of International Settlements. The Basel Standards provide for a minimum capital adequacy ratio of 8.0%. Compliance with Basel 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 separate legal entity, the table below is presented for Bank of Georgia on a standalone basis calculated in accordance with Basel Standards.

	As of 31 December				As of 30 September	
	2003	**2004**	**2005**		**2006**	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars except ratios)*[2]
					(Unaudited)	
Ordinary shares	9,856	11,273	14,729	8,215	16,738	9,642
Share premium	4,530	13,593	32,222	17,971	61,607	35,488
Retained earnings	34,651	23,807	37,281	20,793	52,597	30,298
Tier I capital	**49,037**	**48,673**	**84,232**	**46,978**	**130,942**	**75,428**
General loan loss provisions	1,167	1,452	3,757	2,095	7,120	4,101
Revaluation reserves	5,604	5,492	5,369	2,994	5,580	3,214
Subordinated debt	–	–	–	–	52,065	29,991
Tier II capital	**6,771**	**6,944**	**9,126**	**5,090**	**64,765**	**37,306**
Total capital	**55,808**	**55,617**	**93,358**	**52,068**	**195,707**	**112,734**
Risk-weighted assets	123,928	153,008	356,229	198,678	660,440	380,438
Deductions from capital	–	–	(8,529)	(4,757)	(34,474)	(19,858)
Capital adequacy ratios						
Tier I ratio[3]	39.6%	31.8%	23.6%	23.6%	19.8%	19.8%
Total capital ratio[4]	45.0%	36.3%	23.8%	23.8%	24.4%	24.4%

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Tier I capital divided by risk-weighted assets.

(4) Total capital less deductions divided by risk-weighted assets.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari except ratios)	*(Amounts in thousands of Lari except ratios)*	*(Amounts in thousands of Lari except ratios)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari except ratios)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Ordinary shares	9,856	11,273	14,729	8,215	16,738	9,642
Share premium	4,530	13,376	32,922	18,361	59,866	34,485
Retained earnings	34,651	23,911	37,216	20,756	54,231	31,239
Tier I capital	**49,037**	**48,560**	**84,867**	**47,332**	**130,835**	**75,366**
General loan loss provisions	1,167	1,460	3,909	2,180	7,363	4,241
Revaluation reserves	5,604	5,492	5,369	2,994	5,285	3,044
Subordinated debt	–	–	–	–	52,065	29,991
Tier II capital	**6,771**	**6,952**	**9,278**	**5,175**	**64,713**	**37,276**
Total capital	**55,808**	**55,512**	**94,145**	**52,507**	**195,548**	**112,642**
Risk-weighted assets	123,928	151,062	368,422	205,478	679,852	391,620
Deductions from capital	–	(4,462)	(5,811)	(3,241)	(24,135)	(13,903)
Capital adequacy ratios						
Tier I ratio[3]	39.6%	32.1%	23.0%	23.0%	19.2%	19.2%
Total capital ratio[4]	45.0%	33.8%	24.0%	24.0%	25.2%	25.2%

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Tier I capital divided by risk-weighted assets.

(4) Total capital less deductions divided by risk-weighted assets.

There are several differences between the NBG capital adequacy ratio methodology and the Basel Standards capital adequacy ratio methodology. The most significant of such differences include: (i) for purposes of calculating the NBG ratio, a 200.0% 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 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 Standards ratio but not for purposes of the NBG ratio. As a result of these differences, risk weighted assets, Tier I capital and regulatory capital in accordance with the NBG's methodology were GEL 1.1 billion (U.S.$0.6 billion), GEL 89.9 million (U.S.$51.8 million) and GEL 140.2 million (U.S.$80.8 million), respectively, as of 30 September 2006. The NBG requires Georgian banks to maintain a total capital adequacy ratio of 12.0% and a Tier I capital adequacy ratio of 8.0%. As of 30 September 2006, the Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 12.5%, and the Bank of Georgia's Tier I capital adequacy ratio was 8.0%. Bank of Georgia was in compliance with the NBG's capital adequacy ratio requirements as of 30 September 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 November 2006, Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 28.0%, and Bank of Georgia's Tier I capital adequacy ratio was 22.7%.

Critical 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 Annual Financial Statements as of 31 December 2005 and for the three years then ended appearing elsewhere in this Prospectus.

Allowance for impairment of financial assets. The Bank assesses at each balance sheet date whether a group of financial assets (predominantly loans to customers and amounts due from credit institutions) is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account and the amount of the loss shall be recognised in the consolidated statement of operations.

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 the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individual significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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.

These assessments require several subjective inputs. In assessing impairment for individually significant assets, this requires assessment of certain variables that affect the future cash flows, such as the extent of impairment (based on objective evidence) and its consequent impact on the timing and amount of future debt servicing, including possible pre-payment. In assessing the fair value of the associated collateral, variables such as the ability to sell the collateral in the domestic market are also considered. For a collective evaluation of impairment, historical loss rates are used in estimating future cash flows for assets with similar credit risk characteristics. Changes to any one of the variables used to assess the fair value of the financial asset (either individually or on a collective basis) can impact its final fair value, which in turn can impact whether or not the asset is ultimately classified as impaired, and could result in a change in the allowance.

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. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan is uncollectible, is it written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated statement of operations. These decisions are generally based on imperfect information in that timely interim reporting requires management to make certain assumptions regarding the status of the debtor, the value of the collateral, and the point in time in which a credit should be downgraded. A change in any of these assumptions can significantly affect the nature, timing and extent of any charges or credits that the Bank may make related to financial assets.

Acquisition of subsidiaries. The Bank has entered into acquisitions and in the future may make additional acquisitions. These transactions are required to be accounted for on their substance versus their legal form. Cash exchanged for assets is accounted for at face value, if shares are issued they are to be included in the purchase price based on their fair value. The Bank has not used shares historically in the past to acquire assets, but may do so in the future.

The development of a purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long term impact on the consolidated statement of operations and capitalisation of the Bank. To the extent that other assets (for example, tangible assets or trademarks) are identified that are amortisable (versus goodwill, which is not amortised), the allocation of that fair value through the purchase price allocation is fundamental to the consolidated statement of operations.

For purposes of its financial reporting under IFRS, the Bank is required under IFRS 3 to allocate fair value to all assets acquired and liabilities assumed, even if these assets and liabilities do not exist at the moment of acquisition in the financial statements of the target. The valuation of assets and liabilities requires significant estimates and judgement from the Bank's management. For example, the estimates and judgements are required for the amount of expected future profitability of customers, the expected churn rates, the discount rate to equate those expected earnings to a present value, and the expected economic life of that asset. A significant acquired asset in most banking transactions are "acquired core deposits". In the financial services industry, deposit relationships represent a favourable source of funds and serve as a key factor in determining the profitability of a bank or thrift. Deposit accounts are a focal point of the customer relationship that allow the potential for developing additional relationships beyond simply the depository account. However, generating a stable base of deposit relationships is a gradual process, as domestic market share normally changes slowly. This leads to banks turning to acquisitions to achieve more rapid growth or to build scale quickly in new markets. The complexity of this relationship can be valued using a complex valuation approach, using input variables to place a value on the relationships acquired. A change in any of the estimates used to value these acquired assets could change the amount to be allocated to a particular intangible or tangible asset. Under IFRS, as goodwill is no longer a wasting asset, the cumulative estimates and judgements made in:

- the definition of the purchase price;
- the identification of the assets acquired and the liabilities assumed;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of management of whether or not these assets have an indefinite life or are amortising;

have a significant impact on both the level of total goodwill, future amortisation levels and the consolidated statement of operations.

Goodwill. Goodwill acquired in a business combination represents 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.

The overall determination of goodwill is completely dependent upon i) the valuation of the entire purchase price; and ii) the purchase price allocation process. As noted above, the valuation of the assets acquired and liabilities assumed in any purchase business combination is an area that consists of a significant amount of management judgement and estimates. The residual value that is left over after that process is goodwill.

Goodwill is assessed on at least an annual basis for impairment. The Bank uses judgement in assessing the lowest level of cash flows that can support the goodwill asset, and therefore at what level of business activity should be considered for the valuation of the goodwill asset. The valuation of the business unit supporting the goodwill is subject to a significant amount of estimate and judgement, including but not limited to the assumptions underlying the unit's business plan, the weighted average cost of capital over the valuation period, the expected inflation and growth rates, and any control premiums that may affect a valuation. The Bank's management has considerable discretion in assessing these and other factors used to support, or impair, goodwill.

Income taxes. The current income tax expense is calculated in accordance with the regulations of the Georgian Tax Code. This process involves the assessment of which items are currently taxable, and those that are to have a future tax consequence, or none at all. This process results in certain items being deferred to the future. These "temporary differences" result in deferred tax assets or liabilities, depending on how they will be treated in future tax returns. 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.

The assessment of future tax assets requires us to assess if it is more likely than not, that is a recoverability probability of just over 50.0%, the asset will be recovered. The appropriate amount and classification of income taxes is dependent upon several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual payments and collections may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions that may affect the related income tax balances.

Finally, the Bank is required to assess to what extent, if any, certain tax positions taken on its tax returns may be subject to dispute with the Georgian tax authorities. To the extent that it is probable that a tax deduction or position will be challenged, the Bank is required to accrue additional tax provisions. This assessment requires the Bank's management to make assumptions regarding the positions taken and the overall approach expected by the authorities.

Valuation of investment securities. The Bank holds investment securities that comprise fixed income and equity securities. The Bank holds its investments securities on the balance sheet to meet customer needs, to manage liquidity needs and interest rate risks. All regular way purchases and sales of investment securities are recognised on the trade date, which is the date that the Bank commits to purchase the asset. When investment securities are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Bank determines the classification of its investment securities after initial recognition. As of 31 December 2005, 2004 and 2003 and as of 30 September 2006, these investment securities were reflected as either held-to-maturity investments or available-for-sale securities on the Bank's balance sheet. In addition to the valuation policies as described below, investment securities are assessed for impairment as described in accounting policy "Allowance for Impairment of Financial Assets".

Held-to-maturity investments are subsequently measured at amortised cost. This cost represents 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. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of operations when the investments are de-recognised or impaired, as well as through the amortisation process.

Available-for-sale securities are subsequently measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised 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 statement of operations. Fair values are determined using externally verified quoted market prices or third-party broker quotations. For certain investments where market quotations are not available, fair value is assessed in the following ways:

- using models (such as discounted cash flow analysis) that are validated by qualified personnel independent of the area that created the model and inputs that are verified by comparison to third-party broker quotations or other third-party sources; or
- using alternative procedures, such as benchmarking to a similar asset in a recent transaction through the use of multiples and/or subsequent liquidation prices.

These valuation approaches require judgement and estimates, including but not limited to, cash flow assumptions, appropriate discount rates, liquidity discounts, control premiums, legal constraints, expectations of future growth rates and interest rates, etc. A change in any of these variables could significantly impact the fair value of the financial asset, and the subsequent accounting for that change in fair value.

De-recognition of financial assets and liabilities. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised 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 not retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is de-recognised 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 statement of operations.

The assessment of whether or not the Bank has transferred its rights and obligations under a contractual arrangement is facts and circumstances specific. Judgement is required by the Bank's management in assessing, for example, if "substantially" all the risk and rewards are transferred, or if the other contractual rights still allow "control" to be exercised.

Insurance contract liabilities. The Bank recognises its liabilities for the following type of general insurance contracts that it issues: motor own damage, property, financial risks, health, guarantees, cargo, freight forwarder's liability, general third party liability, motor third party liability, professional indemnity, marine hull and aviation hull. The liabilities under these insurance contracts represent:

- Deferred income from unearned insurance premiums, being the proportion of written premiums, gross of commission payable to intermediaries which is considered attributable to subsequent periods. The change in the provision for unearned premium is taken to the consolidated statement of operations in order that revenue is recognised over the period of risk.

- Claims liability arising from insurance contracts. This is an estimation of the 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. General insurance claims provisions are not discounted for the time value of money.

We apply judgement in estimating the expected ultimate cost of claims incurred but not yet reported as well as notified claims, by using past claim settlement trends to predict future claims settlement outcomes. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Provisions. Provisions are recognised when the Bank 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. This assessment requires the Bank's management to make subjective assumptions about the actions of other parties, the interpretation of various aspects of contracts, the enforceability of claims, and the estimated final settlement. A change or bias in any of these input variables could have an impact on when and how much, if any, of a liability is recorded.

Recent Developments

On 23 October 2006, the Bank established GTU as a wholly-owned (beneficially) subsidiary. GTU is engaged in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, intends to engage in asset management. As of the date of this Prospectus, GTU is managed by Dmytro Perepolkin and employs eight persons, including two licensed securities professionals. Management believes that the establishment of GTU will permit the Bank to develop a presence in Ukraine and enable the Bank to compete effectively with other investment banking firms in Ukraine.

On 6 November 2006, the Bank established the EECP, which is being implemented through a Jersey trust administrated by Abacus Corporate Trustee Limited. The Bank has settled the trust with GEL 1.5 million. In connection with the EECP, the trust subscribed to 850,000 ordinary shares of Bank of Georgia in the form of restricted GDRs on 29 November 2006. The trust is further expected to subscribe to an additional 650,000 ordinary shares of Bank of Georgia in the form of restricted GDRs, which the management expects to occur in 2007, subject to the availability of authorised and unissued shares. In December 2006, Bank of Georgia's Supervisory Board recommended the award of 206,000 Bank of Georgia ordinary shares in the form of restricted GDRs to 18 executives of the Bank pursuant to the EECP in respect of the year ended 31 December 2005. See "Management and Employees—Executive Equity Compensation Plan".

In December 2006, BCI acquired a 100.0% equity interest in Aldagi, a leading insurance company in Georgia. The consideration was GEL 13.2 million (U.S.$7.6 million), or 1.5% and 9.7% of Bank of Georgia's total assets and shareholders' equity, respectively, as of 30 September 2006, of which GEL 2.2 million (U.S.$1.3 million) is payable after 12 months, subject to holdback provisions. Aldagi, established in 1990, is the leading insurance company in Georgia by gross written premiums, with a 23.0% market share as of 30 September 2006, according to information published by State Insurance Supervision Service of Georgia. As a result of this transaction, BCI's market share in Georgia as of 30 September 2006 on a pro forma basis exceeds 40.0%. The overall size of the Georgian insurance (life and non-life) market measured by gross written premiums, is estimated at approximately GEL 68.5 million (U.S.$39.5 million) based on the annualised aggregate gross written premiums of GEL 51.4 million (U.S.$29.6 million) for the nine months ended 30 September 2006. Both BCI and Aldagi, which is expected to be merged into BCI by June 2007, are licensed to carry out life and non-life insurance activities.

Over the past twelve months, Bank of Georgia has increasingly diversified its funding base. Significant sources of funding obtained in the past twelve months include the following:

In February 2006, Bank of Georgia obtained a U.S.$10.0 million, 10-year loan from WorldBusiness Capital (with a partial guarantee from OPIC).

In March 2006, Bank of Georgia received a U.S.$25.0 million unsecured loan facility from Citibank International PLC. The loan has a term of 18 months.

In July 2006, Bank of Georgia raised GEL 14.4 million (U.S.$8.3 million) of equity financing through the sale of 750,000 newly issued ordinary shares of Bank of Georgia.

In August 2006, Bank of Georgia received a U.S.$5.0 million subordinated loan from a fund advised by Thames River Capital. The loan has a term of 10 years. Bank of Georgia may prepay the loan after five years, subject to the consent of the NBG.

In August 2006, Bank of Georgia received a U.S.$25.0 million unsecured loan facility from Merrill Lynch International. The loan has a term of one year and is expected to be repaid from the proceeds of the Loan Agreement.

In September 2006, Bank of Georgia received a U.S.$25.0 million convertible subordinated loan facility from a fund advised by HBK Investments L.P. The loan, which has a term of 10 years, can be converted into

Bank of Georgia's equity during first two years of its term at a 20.0% premium to the offering price of the GDR offering that took place in November 2006. Bank of Georgia has the right to prepay the loan at the end of its convertibility period or after five years, in each case subject to the consent of the NBG.

In September 2006, Bank of Georgia raised GEL 9.0 million (U.S.$5.2 million) of equity financing through the sale of 400,000 newly issued ordinary shares of Bank of Georgia.

In November 2006, the Bank raised net proceeds of U.S.$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new Bank of Georgia ordinary shares in the form of GDRs pursuant to an initial public offering to institutional investors.

In January 2007, Bank of Georgia drew down U.S.$12.5 million from the U.S.$12.5 million FMO loan facility entered into by Bank of Georgia in December 2006.

In January 2007, Bank of Georgia drew down U.S.$5.0 million from EBRD loan and participation facilities entered into by Bank of Georgia in 2005. Of this amount, U.S.$1.8 million was a loan to Bank of Georgia and U.S.$3.2 million was EBRD's participation in the form of a deposit with Bank of Georgia to be utilised directly by the sub-borrower.

DESCRIPTION OF BUSINESS

Overview

As of 30 November 2006, Bank of Georgia was the largest bank in Georgia based on total equity, total assets (with a 27.8% market share) and total loans (with a 25.3% market share) and was the second largest bank in Georgia based on total deposits (with a 23.1% market share), each ranking and market share according to information published by the NBG based on standalone financial information filed with NBG by Georgian banks. These market shares compare to a 17.8% market share by total assets, an 18.2% market share by total loans and a 19.0% market share by total deposits as of 31 December 2005. Bank of Georgia is the successor to state-owned Binsotsbank, which was privatised in 1994. Bank of Georgia's headquarters are located in Tblisi.

The Bank's two principal business areas are retail banking and corporate and investment banking. In addition, the Bank, through its subsidiaries, provides insurance, asset and wealth management and card processing services and engages in merchant banking activities.

The Bank is a leader in the Georgian retail banking market, serving approximately 405,000 retail clients through its branch network and electronic distribution channels as of 30 November 2006. The Bank's retail banking activities include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans, POS loans and overdrafts), current and savings accounts and term deposits, credit cards and other bank card products and services, ATM services, Internet and SMS banking, utilities and recurring payments, money transfers and remittances, standing orders, direct deposit services for wages and other monetary entitlements and other retail banking products and services. As of 30 November 2006, Bank of Georgia had the second largest branch network in Georgia, with 99 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, and the largest ATM network in Georgia, comprising 119 ATMs.

The Bank is also a leader in the Georgian corporate and investment banking markets. The Bank's corporate and investment banking products and services consist primarily 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, leasing, corporate finance advisory services and capital-raising 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 provides corporate finance advisory services on mergers and acquisitions and investment banking services related to capital raisings through its subsidiary, Galt & Taggart Securities.

The Bank, through its wholly-owned insurance subsidiary BCI, is a leading insurance provider in Georgia and had an approximately 20.0% market share based on gross written premiums as of 30 September 2006 (compared to a 14.5% market share in as of 31 December 2005), according to information published by the State Insurance Supervision Service of Georgia. In December 2006, BCI acquired a 100.0% equity interest in Aldagi, a leading insurance company in Georgia. As a result of this acquisition, BCI's as of 30 September 2006 on a pro forma basis market share in Georgia exceeds 40.0%.

The Bank's asset and wealth management business consists of private banking services provided under the Bank of Georgia brand, pension fund management and administration services provided under the BCI brand and broker-dealer, custodial and asset management services provided by Galt & Taggart Securities. On 23 October 2006, the Bank established GTU in Ukraine. GTU is engaged in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, intends to engage in asset management.

As of 30 September 2006, the Bank's total assets were GEL 856.7 million (U.S.$493.5 million), the Bank's total equity was GEL 137.1 million (U.S.$79.0 million) and for the nine months ended 30 September 2006, the Bank's net income was GEL 17.3 million (U.S.$10.0 million).

Bank of Georgia has ratings of “B3” and “Baa3” long-term and “Not-Prime” and “Prime-3” short-term foreign and local currency deposits, respectively, and an “E+” Financial Strength rating from Moody’s. Moody’s rating outlook for Bank of Georgia is stable. Bank of Georgia has ratings of “B” for foreign and local currency issuer default, “B” for short-term foreign and local currency deposits, individual “D” and support “5” from Fitch. Fitch’s rating outlook for Bank of Georgia’s issuer default ratings are positive. Bank of Georgia has ratings of “B+” long-term and “B” short-term for counterparty credit from S&P. S&P’s rating outlook for Bank of Georgia is stable. Bank of Georgia is the only company in Georgia rated by three international rating agencies.

The Bank is a member of, among other organisations, the Association of Georgian Banks, the Trade and Industry Chamber of Georgia, the American Chamber of Commerce in Georgia, the Georgian Insurance Association, the Georgian-Russian Business Council, the Georgian National Association of SWIFT Users and the Georgian Dealers Association. The Bank has been a principal member of Europay International (which subsequently merged with MasterCard) and VISA International since 1997 and 1998, respectively. The Bank has a foreign correspondent banking network comprised of 21 banks in 13 countries as of 30 November 2006, including among others, Citibank, JP Morgan and Deutsche Bank.

Bank of Georgia was awarded the *Best Bank In Georgia Award for Excellence* in each of 2005 and 2006 by *Euromoney*, a leading capital markets publication, and *The Bank of the Year 2006 Award for Georgia* by *The Banker* and was named the *Best Trade Finance Bank in Georgia in 2007* 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 ten 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 a 11.1% shareholding in Bank of Georgia. In 2001, Bank of Georgia became the first company to list its securities on the Georgian Stock Exchange.

In December 2003, Bank of Georgia acquired a 35.0% equity interest in Galt & Taggart Securities, a Georgian investment banking firm, which interest was increased to 53.0% in 2004 and 100.0% in 2005. In early 2004, Galt & Taggart Securities was appointed the Bank’s corporate broker with the mandate to raise the Bank’s profile and enhance the liquidity of Bank of Georgia’s stock.

In mid-2004, the Bank of Georgia’s Chief Executive Officer (“**CEO**”) and Chief Financial Officer (“**CFO**”) were replaced, and by the end of 2004, two members of Bank of Georgia’s previous Management Board were also replaced. In October 2004, the Bank’s restructured management team began to restructure and modernise the Bank. Under its new management, the Bank has more than doubled in 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 and increased the its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank has 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 Georgian Card from 19.6% to 50.3% and subsequently increased its shareholding to 55.5%, which enabled the Bank to invest aggressively in the upgrading of its plastic card business, which management believes is a critical area for retail banking. In December 2004, Bank of Georgia acquired TUB, the ninth largest bank in Georgia at the time based on total assets and equity according to information published by the NBG. At the time of the acquisition, TUB owned a 60.0% equity interest in GLC, the second-largest leasing company in Georgia, and an 8.0% equity interest in Galt & Taggart Securities. Bank of Georgia increased its ownership in

GLC and Galt & Taggart Securities 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 and investment banking activities and to consolidate its control in Galt & Taggart Securities, which features prominently in the Bank's corporate and investment banking as well as asset and wealth management activities.

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 customers. BCI is currently a wholly-owned subsidiary of the Bank. 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 members of management.

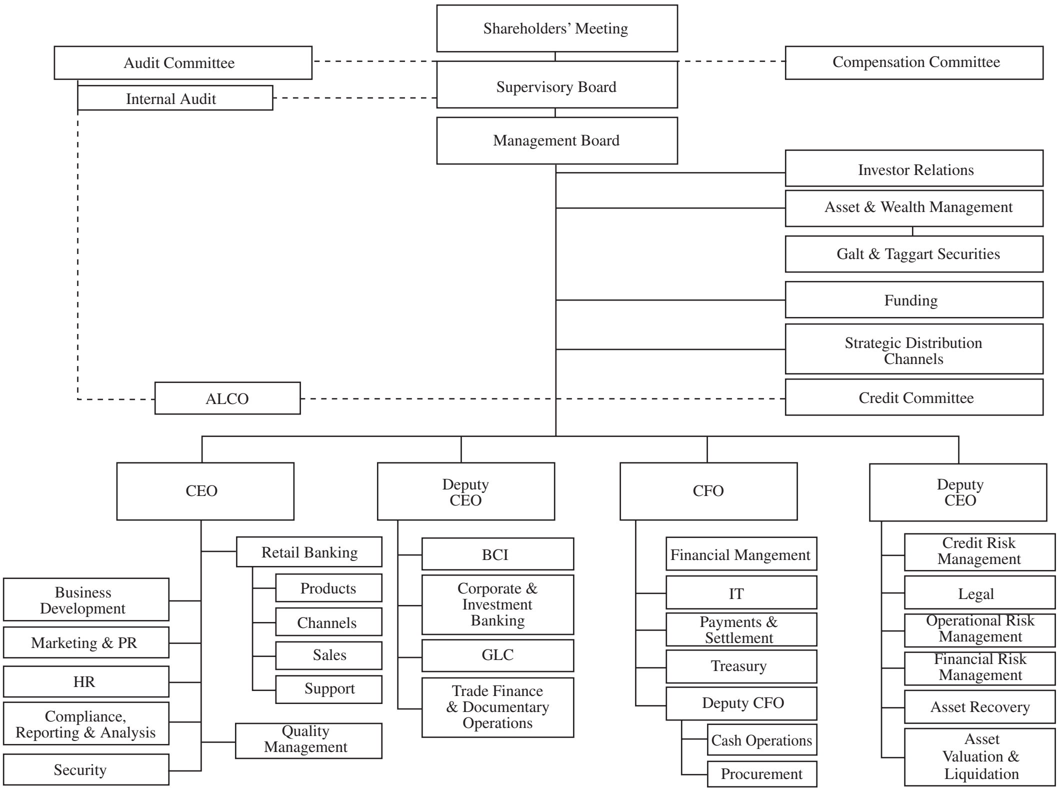
In February 2006, Bank of Georgia purchased the assets and liabilities of Intellect Bank, which was then under temporary administration by the NBG. At the time of the acquisition, Intellect Bank was the ninth largest bank by assets in Georgia based on information published by the NBG. Although the asset 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.

On 23 June 2006 and 29 December 2006, Bank of Georgia signed memoranda of understanding with the shareholders of a Ukrainian bank, which gives Bank of Georgia the exclusive right to purchase 98.15% of the shares in the Ukrainian bank. Bank of Georgia's purchase of the shares in the Ukrainian bank is subject to signing binding sale and purchase agreements with the shareholders of the Ukrainian bank, as well as obtaining required corporate and governmental approvals. On 15 January 2007, Bank of Georgia increased its ownership interest in the Ukrainian bank from 2.82% to 9.92%.

On 23 October 2006, the Bank established GTU in Ukraine, and in December 2006, the Bank, through its insurance subsidiary BCI, acquired Aldagi, a leading insurance company in Georgia. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

Corporate Structure

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



Market Position

As of 30 November 2006, there were 18 commercial banks registered in Georgia, 17 of which have general banking licences issued by the NBG enabling them to perform banking transactions. According to information published by the NBG, as of 30 November 2006, the aggregate assets of all banks in Georgia were approximately GEL 4.1 billion, with the five largest banks accounting for approximately 81.0% 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, which was compiled from standalone financial information filed with the NBG by Georgian banks.

	As of 31 December 2005			As of 30 November 2006		
	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**
	(Amounts in thousands of Lari, except percentages)					
Total assets	1,999,012	2,548,268	78.0	3,345,376	4,132,617	81.0
Gross loans	1,415,146	1,730,466	82.0	2,193,357	2,675,151	82.0
Total deposits	1,287,534	1,538,061	84.0	1,908,781	2,275,986	84.0
Shareholders' equity	326,704	479,488	68.0	626,324	852,460	74.0
Net income	52,232	61,756	85.0	62,052	84,926	73.0

Source: NBG.

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

As of 30 November 2006, Bank of Georgia was the largest bank in Georgia based on total equity, total assets (with a 27.8% market share), and total loans (with a 25.3% market share), and the second largest bank in Georgia based on total deposits (with a 23.1% market share), each ranking and market share according to information published by the NBG based on standalone financial information filed with the NBG by Georgian banks. These market shares compare to a 17.8% market share by total assets, and 18.2% market share by total loans and a 19.0% market share by total deposits as of 31 December 2005. The Bank considers its principal competitors to be TBC Bank, United Georgian Bank, Procredit Bank, Cartu Bank, and Bank Republic. Despite significant competition in the market, Management believes that the Bank continues to strengthen its market position among the top banks in Georgia that offer a wide range of corporate and retail products and services. See "Risk Factors—Risks Relating to the Bank's Business and Industry—Increasing Competition".

Management believes that the Bank has the following competitive strengths:

- *Diversified product offering.* 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 and private banking services. The Bank's diversified product offering enables it to cross-sell products between its corporate and retail client bases and to generate a high level of client loyalty.

- *Retail brand and franchise.* Management believes that the Bank's brands are well-known in the Georgian market. The Bank continues to invest in marketing and advertising and has recently launched a modern and innovative branding campaign, which includes the launch of the *Chemebi* umbrella consumer insurance brand, the launch of the SB24 retail banking sub-brand, modernisation of Bank of Georgia's logo and the introduction into the Bank's marketing activities of an animated lion character, principally for the promotion of the Bank's consumer finance products.

- *Wide distribution network.* As of 30 November 2006, the Bank had the second largest branch network in Georgia, with 99 branches, including full-service flagship branches, service centres, and smaller-format sales outlets. Bank of Georgia has the largest ATM network in Georgia, currently comprising 119 ATMs. Management believes the Bank's wide distribution network is a strength for attracting new business and providing a high level of service to existing customers.

- *Co-branding and distribution relationships.* The Bank has established a number of co-branding initiatives, including exclusive arrangements with a leading pharmacy chain, a leading supermarket chain, a leading travel agency, the Tbilisi Metro (subway), a leading mobile operator and the Georgian Football Federation, among others. Management believes that co-branding and distribution initiatives with these and other partners will lead to the addition of approximately 50,000 retail clients over the next two years and will provide opportunities for expansion of the Bank's POS services, co-branded debit cards, ATM services and various other retail banking products.

- *Experienced management*. The Bank's senior management team is comprised of highly-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 doubled in 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 and increased the Bank's 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.

- *Access to capital. Management* believes that the Bank's shareholder base, the majority of which is comprised of international institutional investors and foreign individuals, dual listing on the London Stock Exchange and the Georgian Stock Exchange, its credit ratings from Moody's, Fitch and S&P and its high level of transparency and strong corporate governance provide the Bank with access to significant funding opportunities and the ability to raise additional debt and equity capital for growth and development more easily and on better terms than its competitors, and the Bank expects this to continue to be the case following the offering of the Notes.

Strategy

Management's objective is to further develop the Bank into a leading universal bank and to increase its market share in all sectors of the Georgian financial services industry, including the retail banking, corporate and investment banking, insurance and asset and wealth management sectors. As part of its growth strategy, the Bank has participated and seeks to continue participating in the ongoing consolidation of the Georgian financial services industry through selective acquisitions or other business combinations. In addition, Management is actively and selectively considering expansion opportunities in other CIS markets. The key elements of the Bank's business strategy are set out below.

- *Strengthening its leading position in the Georgian banking market.* The Bank aims to provide high-quality banking products and services to all of its retail and corporate clients in order to strengthen its position in the Georgian banking market as an innovative universal bank. Management believes there is a significant opportunity to expand the Bank's range of its products and services as the Georgian banking market develops and matures and that this can be done without a significant decrease in the quality of the Bank's loan portfolio.

- *Growing its retail banking business.* Management believes that the retail banking sector is relatively undeveloped in Georgia compared with more developed markets and that it offers considerable growth potential. The Bank plans to further enhance its leading position in the Georgian retail banking market by continuing to introduce innovatively packaged and marketed retail products and expanding its branch network and other distribution and service delivery channels. The Bank is continuously redesigning and enhancing its retail banking product range with an emphasis on well-designed packaged products. For example, in October 2006, the Bank introduced credit cards. The Bank seeks to continue to expand its retail banking customer base (with a goal of having over 500,000 retail banking customers by 2008) through its payroll programmes and various co-branding and distribution initiatives. In order to provide the highest level of service to its retail customers, the Bank is developing a system of continuous client feedback, which will enable the Bank to tailor its products to the needs of specific customer segments. The Bank is also in the process of installing state-of-the-art CRM and client data aggregation and management software solutions and a credit scoring software platform to offer its retail banking customers improved access to the Bank's products.

- *Further diversifying its business, including its funding base and loan portfolio*. The Bank intends to further diversify its business in accordance with its universal banking strategy and expects that its insurance, asset and wealth management and merchant banking services will comprise in the future a greater share of consolidated revenues and net income than in previous years. The Bank also intends to continue to grow and diversify its funding base by attracting new deposits from a wide range of individuals and corporate clients, obtaining credit lines from international financial institutions and accessing the Georgian and international equity and debt capital markets, including by way of the offering of the Notes. The Bank intends to increase the share of retail and

SME deposits as a proportion of the Bank's total deposits. Additionally, while the Bank currently has one of the highest percentages of retail loans in its total loan portfolio among Georgian banks, the Bank intends to further grow and diversify its retail loan portfolio by increasing the number of credit cards and amount of POS loans as well as by increasing the share of SME loans in its overall loan portfolio. By diversifying its funding base and loan portfolio, the Bank aims to reduce overall credit risk and increase the stability of its deposit base.

- *Improving and cross-selling corporate and investment banking services.* While the Bank's strategy is focused primarily on retail banking due to its high growth potential, the Bank also plans to consolidate its leading position in the corporate and investment banking market in Georgia by continuing to improve the quality and range of its corporate and investment banking products and services. Specifically, the Bank intends to continue upgrading its range of corporate banking products and services as well as leveraging its strengths in trade finance, leasing, investment banking and insurance to cross-sell corporate products and services. The Bank's corporate and investment banking integrated client coverage model has centralised and streamlined corporate client coverage along industry sector lines, and the Bank tailors its services to the requirements of the industry in which a particular customer operates. The Bank has implemented systems and procedures to enable relationship bankers to coordinate cross-selling with investment banking, retail banking, insurance, leasing, trade finance and other product specialists. The Bank has also recently redesigned its performance measurement and bonus compensation systems to encourage its employees to focus on fee and commission income through cross-selling payroll services, leasing, insurance and investment banking products and services.

- *Improving risk management policies and procedures.* The Bank seeks to aggressively manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank recently redesigned its credit risk management framework and established a framework for operational risk management. 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".

- *Improving internal operating systems and utilising new technologies*. The Bank plans to continue to invest in technology and make improvements to its organisational structure to increase market penetration and make it more convenient for its customers to access the Bank's products and services. In order to improve efficiency and manage personnel costs as its branch network expands, the Bank is taking steps to standardise the technology used at its branches and units and to centralise management, control and operations capacities in the Bank's head office. In particular, the Bank is in the process of enhancing and strengthening the Bank's IT systems through a comprehensive programme of redesigning its network architecture, enhancing the flexibility of its core processing platform, deploying sophisticated CRM and client data aggregation and management software solutions, deploying an advanced credit scoring software platform and enhancing the management reporting and analytical functionality of its systems. See "Business—Information Technology".

- *Actively considering regional expansion opportunities.* Management believes that significant opportunities exist for the Bank's expansion into selected other CIS markets. For example, the Bank is considering entering new markets with a limited SME-focused banking and retail banking offering, as well as broker-dealer and potentially insurance services. Management is actively and selectively considering regional expansion opportunities. See "Overview of Bank of Georgia—Recent Developments".

Banking Products, Services and Activities

Overview

The Bank's two principal business areas are retail banking and corporate and investment banking. In addition, the Bank provides insurance, asset and wealth management, leasing and card processing services and engages in merchant banking activities.

Retail Banking

The Bank offers a wide range of retail banking products and services, including retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans, POS loans and overdrafts), deposit accounts (including current accounts, time deposits and demand deposits), credit cards and other bank card products and services, ATM services, Internet and SMS banking, payments of utility, mobile phone and other bills in branches and online, money transfers and remittances, standing orders, direct deposit services for wages and other monetary entitlements and other retail banking products and services. Additionally, the Bank has a rapidly growing micro-financing loan programme for individual entrepreneurs and small enterprises.

As of 30 September 2006, the Bank's loans to retail banking customers were GEL 222.6 million (U.S.$128.2 million), or 38.3% of the Bank's total gross loans, as compared to GEL 122.3 million (U.S.$68.2 million), GEL 62.4 million (U.S.$34.2 million) and GEL 46.9 million (U.S.$22.6 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 September 2006, the Bank's current accounts, demand deposits and time deposits from retail customers were GEL 192 million (U.S.$110.6 million), or 41.0% of the Bank's total amounts owed to customers, as compared to GEL 147.2 million (U.S.$82.1 million) and GEL 115.0 million (U.S.$62.9 million) at 31 December 2005 and 2004, respectively. The significant growth in the Bank's retail banking business is primarily the result of the expansion of the Bank's retail customer base and branch network, its emphasis on sale of the packaged products, extensive co-branding, the increased demand for payroll services from corporate customers and the improving financial position of the Bank's retail customers. Retail banking growth is a key component of the Bank's strategy, and Management expects the Bank's retail banking operations to continue to grow over the next several years.

Retail Banking Products and Services

The Bank's retail banking activities include retail lending (including micro-financing loans, mortgage loans, general consumer loans, pawn loans, automobile loans, POS loans and overdrafts), amounts owed to customers (including current accounts, demand deposits and time deposits), credit cards and other bank card products and services, ATM services, Internet and SMS banking, payments of utility, mobile phone and other bills in branches and online, money transfers and remittances, standing orders, direct deposit 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 and has recently 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. The Bank's retail banking customer base currently includes approximately 80,000 individuals who are employees of companies that receive payroll services as part of the Bank's corporate banking business.

Deposit taking from retail customers. Retail deposits principally include current accounts, savings accounts that pay interest on a monthly or quarterly basis and term deposits. 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 has recently begun to charge 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. Fees are typically waived or reduced for customers in payroll programmes. As of 30 September 2006, the Bank's current accounts, demand deposits and time deposits from retail customers were GEL 192.0 million (U.S.$110.6 million), or 41.0% of the Bank's total amounts owed to customers, as compared to GEL 147.2 million (U.S.$82.1 million) and GEL 115.0 million (U.S.$62.9 million) as of 31 December 2005 and 2004, respectively.

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

	As of 31 December 2005		As of 30 September 2006	
	(Amounts in thousands Lari)	(Amounts in thousands of U.S. dollars)[1]	(Amounts in thousands Lari)	(Amounts in thousands of U.S. dollars)[2]
			(Unaudited)	
Total amounts owed to retail customers[3]	147,226	82,112	191,950	110,570

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Total amounts owed to retail customers includes current accounts, time 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 222.6 million (U.S.$128.2 million) as of 30 September 2006, compared to GEL 122.3 million (U.S.$68.2 million), GEL 62.4 million (U.S.$34.2 million) and GEL 46.9 million (U.S.$22.6 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 September 2006, retail loans comprised approximately 38.3% of the Bank's total loans to customers.

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

	As of 31 December 2005			As of 30 September 2006		
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[1]	% of total retail banking loans	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[2]	% of total retail banking loans
					(Unaudited)	
Micro-financing loans[3]	45,303	25,267	37.0	78,148	45,016	35.1
Mortgage loans[4]	32,846	18,319	26.8	55,713	32,093	25.0
General consumer loans[4]	17,395	9,702	14.2	39,414	22,704	17.7
Pawn loans	21,442	11,959	17.5	26,287	15,142	11.8
POS loans	–	–	–	10,692	6,159	4.8
Automobile loans[4]	2,787	1,554	2.3	8,673	4,996	3.9
Other (including overdrafts)[4]	2,570	1,433	2.1	3,713	2,139	1.7
Total retail loans	**122,343**	**68,234**	**100.0**	**222,640**	**128,249**	**100.0**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Includes micro-financing loans made to small private enterprises (non-individuals), which are considered retail banking loans by the Bank.

(4) The Bank also provides these loans to its private banking clients as part of its asset and wealth management business.

(5) Other comprises certain consumer loans and overdrafts with terms that deviate from the standard terms used for the Bank's general consumer loans and overdrafts.

The Bank retail lending products primarily comprise:

- *Micro-financing loans.* The Bank offers micro-financing loans to entrepreneurs and small businesses. Express micro-financing loans are available upon one-day approval for up to U.S.$3,000 and the Bank is increasingly selling packaged products that are offered in conjunction with core micro-financing loans and may include health and life insurance, overdraft protection and consumer loans, among other retail products. 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. As of 30 September 2006, the Bank had approximately GEL 78.1 million (U.S.$45.0 million) in micro-financing loans outstanding, accounting for approximately 35.1% 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. In 2005, the Bank introduced Hypo+, a packaged product, which is the first ever flexible offset mortgage available to home buyers in Georgia. As of 30 September 2006, the Bank had approximately GEL 55.7 million (U.S.$32.1 million) in retail banking mortgage loans outstanding, or approximately 25.0% of retail and private banking loans. The Bank additionally provides mortgages to private banking clients as part of its asset and wealth management business.

- *General consumer loans.* General consumer loans are offered as fixed-term, fixed-instalment loans to be used for general purposes. A general consumer loan may be given for a period of between three months and three years up to a maximum principal amount of GEL 30,000 or its equivalent in U.S. dollars. As of 30 September 2006, the Bank had approximately GEL 39.4 million (U.S.$22.7 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 asset and wealth management business.

- *Pawn loans.* Pawn loans are loans made to retail customers 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 30 September 2006, the Bank had approximately GEL 26.3 million (U.S.$15.1 million) in pawn loans outstanding, accounting for approximately 11.8% of the Bank's total retail loans.

- *POS loans*. Point-of-sale, or POS, loans are express loans offered for consumer goods sold at merchant stores. A POS loan may be given for a period of between three months and two years up to a maximum of GEL 3,000 or its equivalent in U.S. dollars. Such loans are secured by a pledge of the goods purchased with the loan. As of 30 November 2006, the Bank had entered into distribution agreements with 373 merchants, 279 of which are exclusive in connection with providing POS loans. As of 30 September 2006, the Bank had approximately GEL 10.7 million (U.S.$6.2 million) in POS loans outstanding, accounting for approximately 4.8% of the Bank's total retail loans.

- *Automobile loans.* The Bank has agreements with various automobile dealers and car markets in connection with providing loans for the purchase of fully-insured vehicles. As of 30 November 2006, the Bank had signed 21 agreements with automobile dealers and the Bank maintains a physical presence at 4 dealers. Such loans are secured by a pledge of the purchased vehicle. In 2005, the Bank introduced Auto+, an automotive car loan package now offered at most major car dealers, providing a convenient long-term instalment payment option to car buyers. As of 30 September 2006, the Bank had approximately GEL 8.7 million (U.S.$5.0 million) in automobile loans outstanding, approximately 3.9% of retail loans. The Bank additionally provides automobile loans to private banking clients as part of its asset and wealth management business.

Plastic banking cards. The Bank issues debit cards, often with overdrafts, to its retail customers in conjunction with universal current accounts. In line with the Bank's general strategy of targeting customers at various income levels, the Bank offers a range of international debit cards which are designed for different categories of retail customers: Maestro, VISA Electron, VISA Classic and MasterCard Classic (for middle-income retail customers) and VISA Gold and MasterCard Gold (for high income retail customers. The Bank also offers overdraft facilities and a variety of additional services to banking card holders, including direct deposit, direct payment of bills, ATM services, SMS-banking, telephone banking and Internet-banking.

The Bank's plastic banking card business has grown to over 270,000 cards outstanding as of 30 November 2006, from approximately 63,000, 32,000 and 17,000 outstanding as of 31 December 2005, 2004 and 2003, respectively. The Bank has recently focused on co-branding debit cards in order to stimulate spending, gain greater access to the consumer market and increase customer loyalty.

In October 2006, the Bank began offering credit cards to existing clients with good credit histories. The Bank intends to offer credit cards to a wider group of customers, and to the general public in the first half of 2007.

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 and SMS banking. The Bank offers access to its retail banking products and services through the Internet, allowing customers 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. Internet banking usage by the Bank's retail customers is currently low but Management expects usage to increase significantly in the future as more Georgians gain access to the Internet. The Bank also offers a SMS-driven mobile banking service, allowing automatic delivery of transactional information to customers' 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 customers with assistance. As of 30 November 2006, the call centre employed 21 employees and is accessible to customers by telephone and electronically.

Retail Distribution Network

The Bank has a multi-faceted retail distribution network, which includes full-service branches, service centres, smaller-scale sales outlets, ATMs, POS terminals, Internet banking, telephone banking and mobile phone banking, as well as outlets located at various third party businesses, including, for example, supermarkets and consumer electronics, white goods and furniture retailers.

As of 30 November 2006, Bank of Georgia had 99 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, as compared to 51, 54 and 56 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, as of 31 December 2003, 2004 and 2005, respectively. Management believes that the Bank has the largest bank branch network in Georgia that has been modernised. As of 30 November 2006, Bank of Georgia had distribution agreements for POS loan with a total of 373 merchants. Bank of Georgia also has the largest ATM network in Georgia as of 30 November 2006, comprising 119 ATMs. As of 30 November 2006, the Bank had a general consumer loans sales force of 137 employees and had a micro-financing loans sales force of 111 employees.

The Bank intends to continue to expand the number of its branches, sales outlets, POS terminals and ATMs. The Bank's priority in developing its branch network is to make its banking products and services available throughout Georgia and to expand its operations following the integration of any strategic acquisitions it makes. Over the past three years, the Bank has focused on increasing its presence in areas of current or potential demand for banking products and locations with high levels of competition. It has also aimed to increase the number of its branches offering a wide range of banking services and serving a diversified customer base.

Corporate and Investment Banking

The Bank is a leader in the Georgian corporate and investment banking market based on corporate customer deposits, with a market share of approximately 28.0% as of 30 November 2006, 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 customers, 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 customers, leasing, insurance and retail banking (with respect to payroll services). As of 30 November 2006, the Bank had approximately 43,878 corporate banking customers, 2,026 of which were served by a dedicated relationship banker. Approximately 1,769 of these 2,026 corporate banking customers were based in Tbilisi. The Bank offers combined packages of products and services to its corporate customers, enabling such customers to reduce their banking costs and increase efficiency while at the same time generating more sales for the Bank.

As of 30 September 2006, the Bank's loans to corporate banking customers were GEL 340.5 million (U.S.$196.1 million), or 58.5% of the Bank's total loans to customers gross of allowance for loan impairment, as compared to GEL 183.6 million (U.S.$102.4 million), GEL 104.2 million (U.S.$57.1 million) and GEL 101.7 million (U.S.$49.0 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 September 2006, the Bank's current accounts, demand deposits and time deposits from corporate banking customers were GEL 257.6 million (U.S.$148.4 million), or 55.0% of the Bank's total amounts owed to customers, as compared to GEL 112.9 million (U.S.$63.0 million) and GEL 137.1 million (U.S.$74.9 million) as of 31 December 2005 and 2004, respectively.

Corporate and Investment Banking Products and Services

The Bank's corporate and investment 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, leasing, corporate finance advisory and capital-raising 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 provides corporate finance advisory services on mergers and acquisitions and investment banking services related to capital raisings through its Galt & Taggart Securities subsidiary.

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, U.S. dollars, Euros and Pounds Sterling, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. Approximately one-quarter of the Bank's corporate loans to customers are working capital revolving credit lines, with a majority of such loans being of maturities of one year or less. As demand for longer-term financing from existing customers 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 2005			As of 30 September 2006		
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[1]	(Percentage of total corporate banking loans)	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[2]	(Percentage of total corporate banking loans)
			(Unaudited)			
Financial institutions	2,276	1,269	1.2	805	464	0.2
Telecommunications, media and technology	2,896	1,615	1.6	4,347	2,504	1.3
Foreign organisations[3]	1,220	680	0.7	4,631	2,668	1.4
Consumer goods	29,410	16,403	16.0	50,163	28,896	14.7
Retail and wholesale trade	24,108	13,446	13.1	63,360	36,498	18.6
Industry and state[4]	10,516	5,865	5.7	15,764	9,081	4.6
Energy	11,519	6,424	6.3	34,804	20,049	10.2
Transport and logistics	1,592	888	0.9	–	–	0.0
Construction and real estate	18,753	10,459	10.2	52,518	30,252	15.4
Pharmaceuticals and healthcare	10,954	6,109	6.0	10,509	6,053	3.1
SMEs	57,894	32,289	31.5	98,565	56,777	28.9
Other[5]	12,421	6,927	6.8	5,036	2,900	1.5
Total corporate banking loans	**183,559**	**102,375**	**100.0**	**340,502**	**196,142**	**100.0**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

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

(5) 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 340.5 million (U.S.$196.1 million) as of 30 September 2006, or 58.5% of the Bank's total loans to customers compared to GEL 183.6 million (U.S.$102.4 million), or 58.4% of total loans to customers, GEL 104.2 million (U.S.$57.1 million), or 55.1% of total loans to customers, and GEL 101.7 million (U.S.$49.0 million), or 67.3% of total loans to customers, as of 31 December 2005, 2004 and 2003, respectively. For the nine months ended 30 September 2006, the Bank had interest income from loans and advances to corporate banking customers of GEL 28.3 million (U.S.$16.3 million), compared to GEL 22.6 million (U.S.$12.6 million), GEL 16.4 million (U.S.$9.0 million) and GEL 15.4 million (U.S.$7.4 million) for the year ended 31 December 2005, 2004 and 2003, respectively. The Bank's ten largest corporate borrowers accounted for 14.1% of its total loans to customers gross of allowance for impairment losses as of 30 September 2006 as compared to 16.3% of its total loans to customers gross of allowance for impairment losses as of 31 December 2005.

Deposit taking. The Bank offers a range of corporate deposit products, including current accounts, time deposits and demand deposit accounts. As of 30 September 2006, the Bank had a total of GEL 257.6 million (U.S.$148.4 million) in current accounts, time deposits and demand deposits from corporate customers, representing 55.0% of the Bank's total amounts owed to customers as of that date, as compared to GEL 112.9 million (U.S.$63.0 million), GEL 137.1 million (U.S.$75.1 million) and GEL 53.7 million (U.S.$25.9 million) at 31 December 2005, 2004 and 2003, respectively. The Bank's corporate deposits as of 30 September 2006 consisted of GEL 212.8 million (U.S.$122.6 million) in current accounts and demand deposits and GEL 44.8 million (U.S.$25.8 million) in time deposits as compared to GEL 87.0 million (U.S.$48.5 million) and GEL 25.8 million (U.S.$14.4 million), respectively, as of 31 December 2005.

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

	As of 31 December 2005		As of 30 September 2006	
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)(1)	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)(2)
			(Unaudited)	
Total amounts owed to corporate banking customers(3)	112,876	62,953	257,603	148,389

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees, who 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 461 companies. The payroll services and corporate cards provided by the Bank to its corporate customers are a significant source of income for the Bank's retail banking business. The Bank's retail banking customer base currently includes over 80,000 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. Management believes that it currently has an approximately 50.0% market share in trade finance in Georgia. 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 30 November 2006, the Bank had trade finance limits from non-resident banks amounted to GEL 69.8 million (U.S.$40.3 million), from EBRD, Commerzbank, UBS, Citibank, American Express Bank, Kazkommertsbank and Vneshtorgbank. Total volume of documentary operations was GEL 90.7 million (U.S.$52.4 million). As of 30 November 2006, the Bank had export credit agency covered limits of U.S.$22.0 million and EUR 8.5 million from export credit agencies, such as US Export-Import Bank, SACE (Unicredito), Euler Hermes (AKA Bank), EGAP (Czech Export Bank). As of 30 November 2006, trade loans outstanding related to post-import financing and long-term financing amounted to GEL 17.3 million (U.S.$10.0 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 customers and has provided cross-selling the opportunities with other corporate and investment banking products and services and insurance products and services.

Investment banking services. The Bank provides its corporate banking customers with corporate finance advisory and capital-raising services through its Galt & Taggart Securities subsidiary. The Bank considers its investment banking activities to be a significant means of developing banking relationships with strategic corporate banking customers, although it is not currently significant in terms of income generation for the Bank.

Insurance

The Bank is a leader in the Georgian insurance market with an approximately 20.0% market share based on gross written premiums in 2006 compared to a 14.5% market share in 2005, according to the State Insurance Supervision Service of Georgia. The Bank provides insurance-related products and services through BCI, which was acquired by the Bank in November 2004. For the nine months ended 30 September 2006, gross written premiums by BCI were GEL 10.1 million (U.S.$5.8 million) (with a market share of 20.0%) compared to GEL 7.9 million (U.S.$4.4 million) (with a market share of 14.6%) for the year ended 31 December 2005. According to the State Insurance Supervision Service of Georgia, for the nine months ended 30 September 2006, the Bank had market shares of 13.0% and 42.0%, respectively, for health insurance and life insurance based on gross written premiums.

In December 2006, BCI acquired a 100.0% equity interest in Aldagi, a leading insurance company in Georgia. The consideration was GEL 13.2 million (U.S.$7.6 million), or 1.5% and 9.7% of Bank of Georgia's total assets and shareholders' equity, respectively, as of 30 September 2006, of which GEL 2.2 million (U.S.$1.3 million) is payable after 12 months, subject to holdback provisions. Aldagi, established in 1990, is the leading insurance company in Georgia by gross written premiums, with a 23.0% market share as of 30 September 2006, according to information published by State Insurance Supervision Service of Georgia. As a result of this transaction, BCI's pro forma market share in Georgia exceeds 40.0%. The overall size of the Georgian insurance (life and non-life) market measured by gross written premiums, is estimated at approximately GEL 68.5 million (U.S.$39.5 million) based on the annualised aggregate gross written premiums of GEL 51.4 million (U.S.$29.6 million) for the nine months ended 30 September 2006. Both BCI and Aldagi, which is expected to be merged into BCI by June 2007, are licensed to carry out life and non-life insurance activities.

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 insurance; and performance bonds and guarantees. In February 2006, BCI launched its *Chemebi* brand, which is an umbrella brand for five consumer insurance product lines, consisting of motor insurance, health insurance, life insurance, property insurance and travel insurance. BCI cross-sells its insurance products with the Bank's retail banking and corporate products.

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. BCI operates BCI Assistance, a 24-hour telephone helpline for its health insurance customers.

Management believes that the Georgian insurance market, which according to the State Insurance Supervision Service of Georgia has an insurance penetration rate (as measured by gross written premiums as a percentage of GDP) of 0.5% of Georgian GDP as of 30 September 2006 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 insurance and pensions segments in particular expected to undergo significant growth.

Asset and Wealth Management

The Bank's asset and wealth management business consists of private banking services provided under Bank of Georgia's brand, pension fund management and administration provided under the BCI brand and broker-dealer, custodial and asset management services provided by Galt & Taggart Securities.

The Bank's private banking services are generally offered to affluent resident and non-resident clients, who are typically high earners that are not asset rich. As of 30 September 2006, the Bank's current accounts, demand deposits and time deposits from private banking customers were GEL 18.4 million (U.S.$10.6 million), or 3.9% of the Bank's total amounts owed to customers, as compared to GEL 9.9 million (U.S.$5.5 million) as of 31 December 2005.

The following table sets forth the total amounts owed to private banking customers.

	As of 31 December 2005		As of 30 September 2006	
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[(1)]	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[(2)]
			(Unaudited)	
Total amounts owed to private banking customers[(3)]	9,850	5,494	18,440	10,622

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 30 September 2006.

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

As of 30 November 2006, the Bank served approximately 851 private banking clients. The Bank's private bankers are trained to identify the specific needs of their clients and 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 one attractively-packaged product. The OneCard enables cardholders to link the same card to up to five accounts in different currencies (including GEL, U.S.$, 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 BCI, and financial planning and portfolio management through Galt & Taggart Securities. The Bank offers its private banking clients MasterCard Platinum, which provides for increased overdrafts and can be enhanced with IAPA membership and Priority Pass, enabling cardholders to use the business lounges of 245 airports in 80 countries, rent cars at discounted prices in 200 countries and receive discounts at prestigious hotels. In addition, the Bank intends to offer Centurion and Platinum American Express cards in the near future. 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.

Though BCI, in coordination with Galt & Taggart Securities, 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 customers and the Bank's corporate clients. As of 30 November 2006, the BCI Pension Scheme had 2,112 participants. Galt & Taggart Securities services is the portfolio manager of the BCI Pension Scheme.

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

	As of 31 December 2005			As of 30 September 2006		
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[1]	(% of total private banking loans)	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[2]	(% of total private banking loans)
					(Unaudited)	
General consumer loans	2,546	1,420	30.3	1,313	756	7.1
Mortgage loans	4,966	2,770	59.0	14,448	8,322	77.9
Automobile loans	294	164	3.5	1,570	905	8.5
Other (including overdrafts)[3]	610	340	7.2	1,210	697	6.5
Total private banking loans	**8,416**	**4,694**	**100.0**	**18,541**	**10,680**	**100.0**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 30 September 2006.

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

Galt & Taggart Securities offers broker-dealer and discretionary asset management services to resident and non-resident institutional and retail clients. As of the date of this Prospectus, Galt & Taggart Securities was the only full-service investment banking firm in Georgia providing multi-lingual research and providing execution in all major securities traded in the country, with more than 100 active domestic and international clients. In 2006, Galt & Taggart Securities had an approximately 83.0% market share based on trading volume on the Georgian Stock Exchange, according to information published by the Georgian Stock Exchange. Client assets under custody and management of Galt & Taggart Securities grew to approximately GEL 228.3 million (U.S.$131.5 million) as of 30 September 2006 from GEL 144.1 million (U.S.$81.3 million) as of 30 June 2006 and from GEL 68.1 million (U.S.$38.0 million) and GEL 21.1 million (U.S.$11.6 million) as of 31 December 2005 and 2004, respectively. Galt & Taggart Securities publishes research in Georgian and English languages and trades, primarily on an agency basis, Georgian equity and fixed income securities. Additionally, while not acting as official market-maker in any security, Galt & Taggart Securities maintains a limited proprietary book of selected equity and fixed income securities including Bank of Georgia's ordinary shares and coupon bonds. The Bank is in the process of developing an increasing presence in the domestic institutional market.

Merchant Banking

The Bank's merchant banking business focuses on strategic investments in Georgian companies that are engaged in the production, wholesale and retail distribution of consumer goods, the provision of consumer services, business services and the development and management of real estate. The Bank carries out its merchant banking activities through JSC Galt & Taggart Capital ("**GTC**"), a subsidiary of Galt & Taggart Securities, and has largely completed the process of concentrating all of its merchant banking assets under the ownership of GTC, including those subsidiaries listed in the notes to the Financial Statements. GTC was admitted to trading on the Georgian Stock Exchange in November 2006 and placed 22.7% of its outstanding shares with third-party investors, in newly issued ordinary shares.

Information Technology

The Bank views information technology 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 support the growth of its operations. 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 two separately-located data centres. The Bank is considering further enhancements of the 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 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, 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 Statlogic, a credit-scoring solution used by the Bank for consumer lending. In addition, Georgian Card has recently migrated to the Transmaster card processing system (developed by TietoEnator) and the Bank is in the process of implementing Finantix, a CRM solution, as well as additional software and interfaces developed internally. 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 invested approximately GEL 5.5 million (U.S.$3.2 million) in information technology for the nine month period ended 30 September 2006 as compared to approximately GEL 2.1 million (U.S.$1.2 million), GEL 1.8 million (U.S.$1.0 million)and GEL 0.9 million (U.S.$0.4 million) in the years ended 31 December 2005, 2004 and 2003, respectively. Expenditure in 2005 does not include an aggregate of GEL 0.6 million (U.S.$0.3 million) of investment in the TransMaster system by Georgian Card, a 55.5%-owned subsidiary of the Bank.

Property

The Bank's head office in Georgia is located at Freedom Square, 3 Pushkin Street, Tbilisi, Georgia, 0105. As of 30 September 2006, the Bank owned real estate in Tbilisi (23 premises with an aggregate area of approximately 46,077 square metres) and other regions in Georgia (39 premises with an aggregate area of approximately 23,626 square metres). The Bank also leased 65 premises in Tbilisi with an aggregate area of approximately 7,076 square metres and 21 premises in other regions of Georgia with an aggregate area of approximately 1,986 square metres. In addition, as of 30 September 2006 the Bank owned land plots with an aggregate area of 24,673 square metres. The Bank's owned and leased properties described above are used by the Bank and its subsidiaries for banking and other services.

As of 30 September 2006, the total net book value of the real estate and land owned by the Bank was GEL 31.3 million (U.S.$18.0 million).

Intellectual Property

The Bank has registered 10 logos, which include logos representing the Bank and its principal subsidiaries as well as one logo representing one of the Bank's co-branding initiatives. In addition, the Bank has registered over 200 domain names in Georgia and elsewhere. None of the Bank's intellectual property assets is considered to be material to the Bank's business.

Litigation

With the exception of the information disclosed directly below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), during the previous 12 months, which may have, or have had in the recent past significant effects on the Bank's financial position or profitability.

On 10 March 2006, five shareholders of Intellect Bank filed a claim in administrative court seeking to have declare invalid and illegal Order No. 68 of Vice-President of the NBG (the appointment of the temporary administrator of Intellect Bank) and to have declared invalid the agreement signed between the NBG and the Bank regarding the transfer of Intellect Bank's assets and liabilities. The claim states that the purpose of temporary administration pursuant to the Law on the NBG and the Law on Activities of Commercial Banks (the "Banking Law") is to improve the financial standing of a commercial bank and further alleges that the Law on the NBG provides that a commercial bank can be declared insolvent only by decision of the NBG and that such a decision was not made prior to the temporary transfer of Intellect Bank's assets and liabilities to other banks. On 18 July 2006, the court issued a ruling declaring both Order No. 68 and the agreement signed between the NBG and the Bank valid and legal. As of the date of this Prospectus, the Court has not yet delivered its final written decision. Once such decision is issued, the claimants will be given the right to appeal within 14 day after receiving court's written decision. In the event that the court ultimately declares Order No. 68 invalid, the agreement signed between the NBG and Bank of Georgia regarding the transfer of Intellect Bank's assets and liabilities will be declared void. As a result, Bank of Georgia would be required to return to Intellect Bank all assets and liabilities received, including incurred losses. Losses to be reimbursed would be calculated as a profit received by Bank of Georgia from the date of signing the agreement with NBG. In this case, Bank of Georgia would have the right to demand reimbursement of the losses in the same amount from the NBG.

In March 2006, Bank of Georgia was fined GEL 0.7 million (U.S.$0.4 million) 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. A fine was imposed on Bank of Georgia and on all other Georgian banks by the NBG, and the NBG 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. Bank of Georgia has additionally formed a separate AML Compliance Department and 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. In recent months, the amounts of the NBG's fines imposed for violation of mandatory threshold reporting deadlines have been significantly reduced, but such reductions have not had retroactive effect. See "Risk Management—Anti-Money Laundering Procedures".

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 coupon bonds denominated in Lari. As of 30 September 2006, total amounts owed to customers amounted to GEL 468.0 million (U.S.$269.6 million) as compared to GEL 270.0 million (U.S.$150.6 million), GEL 252.1 million (U.S.$138.1 million) and GEL 123.6 million (U.S.$59.5 million) as of 31 December 2005, 2004 and 2003, respectively. As of 30 September 2006, amounts owed to credit institutions amounted to GEL 223.2 million (U.S.$128.6 million) as compared to GEL 78.9 million (U.S.$44.0 million), GEL 48.3 million (U.S.$26.5 million) and GEL 50.2 million (U.S.$24.2 million) as of 31 December 2005, 2004 and 2003, 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				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)* *(Unaudited)*	*(Amounts in thousands of U.S. dollars)*[2]
Amounts Owed to Credit Institutions						
Current accounts	338	113	144	80	2,822	1,626
Time deposits and loans	25,551	23,627	37,007	20,640	91,262	52,570
Borrowings from international credit institutions	24,348	24,594	41,722	23,269	129,119	74,377
Total amounts owed to credit institutions	**50,237**	**48,334**	**78,873**	**43,989**	**223,203**	**128,573**
Amounts Owed to Customers						
Time deposits	66,509	110,551	132,656	73,985	222,958	128,432
Current accounts	57,064	141,578	137,296	76,573	245,035	141,149
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**150,559**	**467,993**	**269,581**
Debt Securities Issued						
Promissory notes issued	–	–	1,143	637	1,128	650
Total debt securities issued	–	–	1,143	637	1,128	650
Total banking liabilities[3]	**173,810**	**300,463**	**349,968**	**195,186**	**692,324**	**398,804**
Total income tax liabilities	771	203	2,087	1,164	3,881	2,236
Provisions	472	971	975	544	–	–
Total other liabilities	428	6,076	16,078	8,967	23,430	13,496
Total liabilities	**175,481**	**307,712**	**369,442**	**206,047**	**719,635**	**414,536**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

Amounts Owed to Customers

Amounts owed to customers include current accounts and time deposits from corporate clients and retail customers. Current accounts and deposits from customers increased to GEL 468.0 million (U.S.$269.6 million) as of 30 September 2006 from GEL 270.0 million (U.S.$150.6 million), GEL 252.1 million (U.S.$138.1 million) and GEL 123.6 million (U.S.$59.5 million) as of 31 December 2005, 2004 and 2003, respectively. As of 30 September 2006, amounts owed to customers in the amount of GEL 95.9 million (U.S.$55.2 million) (20.5% of total gross customer accounts) were attributable to the Bank's ten largest deposit customers.

The Bank accepts deposits in Lari and foreign currencies. As of 30 September 2006, 65.1% 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				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Current accounts	57,064	141,578	137,296	76,573	245,035	141,149
Time deposits	66,509	110,551	132,656	73,985	222,958	128,432
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**148,898**	**467,993**	**269,581**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[1]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[2]
					(Unaudited)	
Foreign currency deposits[3]	104,293	192,182	193,457	106,705	304,598	175,460
Lari	19,280	59,947	76,495	42,192	163,395	94,121
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**148,898**	**467,993**	**269,581**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Primarily U.S. dollars.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*(1)	*(Amounts in thousands of Lari)* *(Unaudited)*	*(Amounts in thousands of U.S. dollars)*(2)
Individuals	69,560	114,218	154,564	86,204	193,714	111,586
Private enterprises	44,825	110,081	86,123	48,033	206,763	119,103
State and budgetary organisations	7,114	26,556	27,456	15,313	67,516	38,892
Employees	345	1,274	1,809	1,009	–	–
Other(3)	1,729	–	–	–	–	–
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**150,559**	**467,993**	**269,581**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 September 2006.

(3) Other comprises certain state agencies not categorised as State and budgetary organisations.

Amounts Owed to Credit Institutions

Amounts owed 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 loans obtained by the Bank from various international financial institutions as a source of long-term funding. As of 30 September 2006, total amounts owed to credit institutions were GEL 223.2 million (U.S.$128.6 million), representing 31.0% of the Bank's total liabilities as of that date. Total amounts owed to credit institutions were GEL 78.8 million (U.S.$43.9 million), GEL 48.3 million (U.S.$26.5 million) and GEL 50.2 million (U.S.$24.2 million) as of 31 December 2005, 2004 and 2003, respectively.

As of 30 September 2006, 8.9% of amounts owed to credit institutions were denominated in Lari and 91.1% were denominated in other currencies, and 47.0% of amounts owed to credit institutions had a maturity of less than one year.

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

	As of 31 December				As of 30 September	
	2003	2004	2005		2006	
	(Amounts in thousands of Lari)	*(Amounts in thousands of Lari)*	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(1)]	*(Amounts in thousands of Lari)*	*(Amounts in thousands of U.S. dollars)*[(2)]
					(Unaudited)	
Current accounts	338	113	144	80	2,822	1,626
Time deposits and interbank loans[(3)]	25,551	23,627	37,007	20,640	91,262	52,570
Borrowings from international credit institutions[(4)]..............	24,348	24,594	41,722	23,269	129,119	74,377
Total amounts owed to credit institutions..............	**50,237**	**48,334**	**78,873**	**43,989**	**223,203**	**128,573**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by NBG on 31 December 2005.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.736 per U.S.$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by NBG on 30 September 2006.

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

(4) Borrowings from international credit institutions include loans from Commerzbank, EBRD, IFC, DEG, BSTDB, AKA, Citibank N.A. and WBC.

Over the course of the past several years, 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 January 2007, Bank of Georgia drew down U.S.$5.0 million from EBRD loan and participation facilities entered into by Bank of Georgia in 2005. Of this amount, U.S.$1.8 million was a loan to Bank of Georgia and U.S.$3.2 million was EBRD's participation in the form of a deposit with Bank of Georgia to be utilised directly by the sub-borrower.

- In January 2007, Bank of Georgia drew down U.S.$12.5 million from the U.S.$12.5 million FMO loan facility entered into by Bank of Georgia in December 2006.

- In September 2006, Bank of Georgia obtained a U.S.$25.0 million convertible subordinated loan from a fund advised by HBK investments. The loan, which has a term of 10 years, can be converted into Bank of Georgia's equity during the first two years of its term at a 20.0% premium to the offering price of the GDR offering that took place in November 2006. Bank of Georgia has the right to prepay the loan at the end of its convertibility period or after five years, in each case, subject to the consent of the NBG.

- In August 2006, Bank of Georgia obtained a U.S.$25.0 million unsecured one-year term loan from Merrill Lynch. The loan has a term of one year and is expected to be repaid from the proceeds of the Loan.

- In August 2006, Bank of Georgia obtained U.S.$5.0 million 10-year subordinated loan from a fund advised by Thames River Capital. The loan has a term of 10 years. Bank of Georgia may prepay the loan after five years, subject to the consent of the NBG.

- In March 2006, Bank of Georgia obtained a U.S.$25.0 million unsecured 18-month term loan from Citigroup.
- In February 2006, Bank of Georgia obtained a U.S.$10.0 million 10-year loan from World Business Capital (with a partial guarantee from OPIC) to fund the Bank's mortgage lending activities.
- 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 (U.S.$11.5 million) from the NBG.
- In 2005, Bank of Georgia obtained a U.S.$3.8 million five-year term loan from Commerzbank (with a partial guarantee from KfW) to fund the Bank's SME lending activities.
- In 2005, Bank of Georgia entered into a U.S.$10.0 million five-year loan and participation facilities with EBRD to fund the Bank's corporate lending activities. Pursuant to this agreement, EBRD matches the amounts loaned to customers by the Bank with loans by EBRD to the customers in equivalent amounts.
- In 2003, Bank of Georgia signed a U.S.$5.0 million six-year loan with EBRD and a U.S.$5.0 million seven-year loan with IFC, each to fund the Bank's SME lending activities.
- In 2002, Bank of Georgia signed a EUR 3.0 million seven-year loan with DEG to fund the Bank's SME lending activities.
- In 2000, Bank of Georgia signed a EUR 2.0 million eight-year loan with DEG and a U.S.$3.0 million seven-year loan with IFC, each to fund the Bank's mortgage lending activities.

All of the foregoing loans bear floating interest rates tied either to LIBOR or EURIBOR. Interest rates for the Bank's U.S. dollar borrowings ranged from 4.0% to LIBOR plus 6.2%, including subordinated facilities in the nine months ended 30 September 2006, and from LIBOR plus 4.0% to LIBOR plus 5.3% in 2003, 2004 and 2005. Interest rates for the Bank's Euro borrowings ranged from EURIBOR plus 2.0% to EURIBOR plus 4.5% in the nine months ended 30 September 2006, EURIBOR plus 2.0% to EURIBOR plus 6.0% in 2004 and 2005 and from EURIBOR plus 4.3% to EURIBOR plus 6.0% in 2003.

In addition, the Bank has trade finance lines from EBRD (EUR 29.5 million), US Export-Import Bank (U.S.$20.0 million), AKA and Euler Hermes (EUR 5.0 million), Citibank N.A. (U.S.$4.7 million), Commerzbank (EUR 4.0 million), Sace and Unicredito Italiano S.p.A (EUR 3.5 million), Kazkommerzbank (U.S.$3.0 million), American Express Bank (U.S.$2.0 million), Česká Exportní Banka (U.S.$2.0 million), Vneshtorgbank (U.S.$1.0 million) and UBS (U.S.$1 million), each amount as of 31 December 2006. In November 2006, EBRD increased the trade finance limit to Bank of Georgia to EUR 29.5 million, making it EBRD's third largest trade counterparty in the CIS.

The Bank also has credit lines for interbank operations from the following non-resident banks: Citibank (U.S.$2.0 million), American Express Bank (U.S.$1.0 million), Kazkommertsbank (U.S.$1.0 million), Medicinos Banks Lithuania (U.S.$1.0 million).

To date, the Bank has not obtained any syndicated loans but Management believes that a market for such loans exists and is accessible to the Bank.

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 and credit exposures. 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 and Industry—Restrictive Covenants".

The Bank's loan agreement with Merrill Lynch, signed in August 2006, relating to a U.S.$25.0 million unsecured one-year term loan, contains a provision requiring mandatory repayment of the loan in full, together will all other amounts outstanding, in the event that there is a deterioration in the political or economic situation in Georgia or in the banking system in Georgia or other acts of violence in Georgia if such event might reasonably have an expected material adverse effect on the Bank.

Debt Securities Issued

In September 2005, Bank of Georgia issued Lari-denominated coupon bonds as a source of funding. The original term of the coupon bonds is two years, but the bonds may be called by the Bank within one year, and the interest rate is 11.0% per annum, paid semi-annually. The coupon bonds mature in September 2007. As of 30 September 2006, the outstanding coupon bonds totalled GEL 1.4 million (U.S.$0.8 million).

Equity Funding

While customer accounts are the Bank's principal source of funding, the Bank has raised capital through the issuance of new Bank of Georgia ordinary shares on several occasions since the fourth quarter of 2004. In December 2004, the Bank raised GEL 8.2 million (U.S.$4.5 million) through the issue of 1,417,780 new ordinary shares. During 2005, the Bank raised an aggregate of GEL 23.1 million (U.S.$12.9 million) from the issue of 3,455,318 new ordinary shares and from 1 January 2006 to 31 October 2006, the Bank raised an aggregate of GEL 30.8 million (U.S.$17.7 million) from the issue of 2,147,820 new common shares. These figures include 609,000 common 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. Since September 2005, Bank Austria Creditanstalt has accumulated over 4.1 million ordinary shares of Bank of Georgia and issued call warrants against them. Management believes that the Bank is the only Georgian bank to have ever raised new equity capital on the Georgian Stock Exchange.

In November 2006, the Bank raised net proceeds of U.S.$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new Bank of Georgia ordinary shares in the form of GDRs pursuant to an initial public offering to institutional investors. The new ordinary shares, in the form of GDRs, are listed on the official list of the UK Listing Authority and are admitted to trading on the London Stock Exchange. Bank of Georgia is the first Georgian company to raise new equity capital on the London Stock Exchange.

LENDING POLICIES AND PROCEDURES

Bank of Georgia lends to corporate and retail customers. 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 apply 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 department.

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 CEO in charge of the Risk Management department, which is responsible for credit risk and asset recovery, adopts, in consultation with Bank of Georgia's CEO and CFO, decisions on the acceleration and write-offs of non-performing loans. The Credit Committee is comprised of four distinct levels. The first-level committee 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 borrower of U.S.$10,000-U.S.$100,000 for corporate banking loans and U.S.$10,000-U.S.$50,000 for retail banking loans. The second-level committee is chaired by the Director of the Credit Risk Management department and approves loans resulting in Bank of Georgia's overall exposure to a borrower of U.S.$100,000-U.S.$200,000 for corporate banking loans and U.S.$50,000-U.S.$200,000 for retail banking loans. The third-level committee is chaired by Bank of Georgia's Deputy CEO in charge of Risk Management and approves loans resulting in Bank of Georgia's overall exposure to the borrower of U.S.$200,000-U.S.$500,000. The fourth-level committee is chaired by Bank of Georgia's CEO and approves loans resulting in the Bank of Georgia's single borrower lending exposure exceeding U.S.$500,000. All exposures to single borrowers over U.S.$4.0 million require approval by Bank of Georgia's Supervisory Board. The Credit Committee meets three times a week or on an as-needed basis and make its decisions by the majority vote of all of its members.

Decisions on loans under U.S.$10,000 are made at the branch level pursuant to joint approval by the group leader or a micro loan officer, depending on the type of the loan. The originator of the loan, however, does not participate in the approval of the loan.

Loan Approval Procedures

Bank of Georgia evaluates borrowers 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 customers 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 and supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history and 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 for independent appraisal by the Credit Risk Management department. 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 type of retail lending product. Applications for POS loans (under GEL 3,000) are subject to a simplified "scoring" approval procedure. A sales officer conducts an interview with the applicant, completes an application and submits it to a "scoring centre", which makes a final decision. Applications for consumer loans, auto loans and mortgage loans by retail banking customers are submitted to a loan officer and, if the loan is in amount of over U.S.$10,000, are then submitted to the credit risk manager in charge of retail banking, who evaluates the credit risk (including an assessment of the applicant's credit history, financial position and ability to service the loan) and determines the maximum amount that may be loaned. The final decision on these loan applications is made by the appropriate credit committee. Micro-financing loan approval procedures are developed under EBRD's micro-financing programme. Micro-financing loan officers evaluate loan applications and submit proposals to the appropriate credit committee which makes the final decision. Consultants within EBRD micro-financing programme have veto rights on loans approved by Bank of Georgia credit committee for micro-financing loans.

In 2004, Bank of Georgia, jointly with certain other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established CIG to serve as a centralised credit bureau in Georgia. While most Georgian banks have recently begun to share and contribute negative customer credit information to CIG, CIG is not yet fully developed. There is currently no law on credit reporting in Georgia but work has begun toward the establishment of such a law and the Parliament is currently considering draft thereof. See "Risk Factors—Risks Relating to the Bank's Business and Industry—Developing Nature of Centralised Credit Information 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 account manager, loan officer, collection officer or problem loan manager (if applicable) to ascertain the reason for non-payment, and 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, 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 30 September 2006, 93.4% of Bank of Georgia's loans to customers were collateralised. The evaluation report of the proposed collateral, which is prepared by the Asset Valuation & Liquidation department is submitted to the Credit Committee, together with the loan application and credit risk manager's report.

The Asset Valuation & Liquidation and Legal departments are responsible for monitoring and registering the collateral taken. When evaluating collateral, Bank of Georgia discounts the market value of the assets to reflect the liquidation value of the collateral. 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. Bank of Georgia is in the process of developing a collateral monitoring system. The frequency of a collateral review will depend 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 "Risks Relating to the Bank's Business and Industry—Enforcement of Security Under Georgian Law".

Assessments of Provisions for Loan Impairment

Pursuant to NBG regulations, Bank of Georgia establishes provisions for impairment losses of financial assets when there is objective 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 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 NBG regulations and on an analysis of the assets at risk and reflects the amount which, in the judgement of Management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets.

The change in impairment of interest earning assets is charged to 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 NBG regulations, information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies 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 allowance account for provisioning of interest earning assets, 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 new policy, Bank of Georgia categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of more than 0.5% of Bank of Georgia's total regulatory capital and non-significant loans are defined as loans in the amount of less than 0.5% of Bank of Georgia's total equity. All significant loans are classified according to individual credit and provisioning ratings. All 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.

As of 30 September 2006, the Bank's allowance for loan impairment under IFRS was 3.7% of its loan portfolio compared to 5.4% as of 31 December 2005, 10.1% as of 31 December 2004, and 6.1% as of 31 December 2003, 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 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 in charge of risk management and the Credit Risk Management department adopts, in consultation with Bank of Georgia's CEO and CFO, 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 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.$10,000-100,000 for corporate banking loans and U.S.$10,000-50,000 for retail banking loans. The second tier subcommittee is chaired by the Deputy Director of Credit Risk Management and approves loans resulting in the Bank's overall exposure to the relevant borrower in the range of U.S.$100,000-200,000 for corporate banking loans and U.S.$50,000-200,000 for retail banking loans. The third tier subcommittee is chaired by the Deputy CEO and is responsible for risk management and asset recovery and approves loans resulting in the Bank's overall exposure to the relevant borrower in the range of U.S.$200,000-500,000. The fourth tier subcommittee is chaired by Bank of Georgia's CEO and approves loans resulting in the Bank's overall exposure to the borrower exceeding U.S.$500,000. Loans resulting in the Bank's single borrower lending exposure above U.S.$4.0 million are submitted to the Supervisory Board for approval. 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. All subcommittees of the Credit Committee make their decisions by a majority vote of their respective members.

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 intraday positions and stop loss limits and monitors compliance with established value at risk ("**VAR**") limits on possible losses as a secondary manner to measurement. 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 co chaired by the CEO and CFO 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, CFO, the Deputy CEO in charge of Credit Risk Management, Head of the Financial Risk Management, Head of the Treasury, Head of Trade Finance, Head of Asset and Wealth Management and Head of Funding. At its monthly meetings, the ALCO reviews financial reports and indices including the Bank's 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, Reporting and Analysis department reports to the CEO. The Treasury department reports to the CFO. The Financial Risk Management, Credit Risk Management, Operational Risk Management and Legal departments report to the Deputy CEO in charge of Risk Management.

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, 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 Compliance, Reporting and Analysis department consists of the following distinctly separate departments: AML Compliance, Legal Compliance and Tax Compliance. The AML Compliance department 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 of all business processes in the bank to the adopted AML measures. The AML Compliance department is also responsible for the daily reporting to the Financial Monitoring Service (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 Compliance department conducts due diligence on potential business partners, carefully screens counterparties and the adequacy of their AML capabilities and compliance with FATF/GAFI Recommendations. The main function of the Legal Compliance department is to monitor all changes in relevant laws and regulations, and to ensure that those changes are properly reflected in the bank's procedures, instructions, manuals, templates, etc. The Legal Compliance department disseminates information on legislative changes to all relevant departments within the Bank. Externally, the Legal Compliance department participates in drafting of the laws and regulatory documents, as per request of the legislators, 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 scenarios for the Bank.

Each of the foregoing departments is provided a policy manual that includes 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. Policy manuals are approved by the Management Board.

Reporting

The Bank maintains a management reporting system which requires the Credit Risk Management, Financial Management, Funding and Business Development 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 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 is provided.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually 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 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.

An analysis of the Bank's banking assets and liabilities as of 30 September 2006 based on contractual maturity is presented below.

	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Past due**	**Total**
				(Amounts in thousands of Lari)				
Assets:								
Cash and cash equivalents	96,654	11,826	8,003	–	–	–	–	116,483
Due from credit institutions	27,918	12,149	3,003	8,107	4,900	115	–	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	34,732	32,835	560,403
Net investment in lease	–	–	–	83	8,058	912	–	9,053
Investment securities:								
– available-for-sale	616	92	1,361	12	3	4,077	–	6,161
– held-to-maturity	–	–	253	–	–	–	–	253
	125,188	86,489	85,667	168,301	210,229	39,836	32,835	748,545
Liabilities:								
Owed to credit institutions	419	10,323	5,813	88,246	42,392	75,710	300	223,203
Owed to customers	272,316	54,618	27,882	76,539	35,537	1,101	–	467,993
Debt securities issued	–	–	–	1,128	–	–	–	1,128
	272,735	64,941	33,695	165,913	77,929	76,811	300	692,324
Net position	**(147,547)**	**21,548**	**51,972**	**2,388**	**132,300**	**(36,975)**	**32,535**	**56,221**
Accumulated gap	**(147,547)**	**(125,999)**	**(74,027)**	**(71,639)**	**60,661**	**23,686**	**56,221**	

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 above. In addition, the maturity gap 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 one month in the table above.

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

- deposits;
- debt issues;
- proceeds from sale of securities;
- interbank deposit agreement;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As of 30 September 2006, total amounts owed to customers were GEL 468.0 million (U.S.$269.6 million) (as compared to GEL 270.0 million (U.S.$150.6 million) as of 31 December 2005) and represented 65.0% (as compared to 73.1% as of 31 December 2005) of the Bank's total liabilities. As of 30 September 2006, amounts owed to credit institutions accounted for GEL 223.2 million (U.S.$128.6 million) (as compared to GEL 78.9 million as of 31 December 2005) and represented 31.0% (as compared to 21.4% as of 31 December 2005) 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 ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on one-year statistical data. The Bank's 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 95.0% "tolerance threshold", but the open position is limited to a maximum of 10.0% of its equity 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 equity capital. The Bank additionally limits open foreign currency positions other than U.S. dollars and Lari to GEL 500,000 (U.S.$288,102).

The following table sets out the Bank's currency exposure as of 30 September 2006.

	GEL	Other (Freely Convertible)	Other (Non Convertible)	Total
	(Amounts in thousands of Lari)			
Assets	371,462	484,294	958	856,714
Liabilities	208,178	511,457	–	719,635
Currency exposure	163,284	(27,163)	958	137,079

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 manages its interest rate risk by monitoring its duration gap and maintaining 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.

An analysis of the Bank's exposure to interest rate risk as of 30 September 2006 based on the contractual maturity of interest-bearing assets and liabilities is presented below.

	Non – interest bearing	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(Amounts in thousands of Lari)						
Assets:							
Cash and cash equivalents	58,101	50,379	8,003	–	–	–	116,483
Due from credit institutions	–	38,294	3,341	9,136	5,287	134	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	67,567	560,403
Net investment in lease	–	–	–	83	8,058	912	9,053
Investment securities:							
– available-for-sale	616	92	1,361	12	3	4,077	6,161
– held-to-maturity	–	–	253	–	–	–	253
	58,717	151,187	86,005	169,330	210,616	72,690	748,545
Liabilities:							
Owed to credit institutions	420	10,323	5,764	87,307	41,836	77,553	223,203
Owed to customers	161,497	165,438	27,882	76,538	35,537	1,101	467,993
Debt securities issued	–	–	–	1,128	–	–	1,128
	161,917	175,761	33,646	164,973	77,373	78,654	692,324
Net position	**(103,200)**	**(24,574)**	**52,359**	**4,357**	**133,243**	**(5,964)**	**56,221**

For information on the Bank's average effective interest rates by categories of interest-bearing assets and liabilities, see "Selected Statistical and Other Information—Average Effective Interest Rates".

As of 30 September 2006, the Bank's floating rate borrowings accounted for approximately 19.9% of the Bank's total 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 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. The Credit Policy was last revised in October 2006. As a result of this review, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented. However, the Bank continues to use the NBG's provisioning methodology in order to comply with NBG 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 NBG. 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 CFO, 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 NBG regulations, provisions for loan impairment are established following the default by a borrower under a loan or where there is objective evidence of 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.

The Bank defines non-performing loans as loans overdue more than 90 days. According to NBG regulations, all non-performing loans are assigned to one of the categories Substandard, Doubtful or Loss. The following table sets out the loan classification for individual loans pursuant to the NBG regulations.

Loan Classification	Loss Potential	NBG Provisioning Range (Percentage)
Standard	Almost none	2.0
Watch	Relatively low	10.0
Substandard	Distinct	30.0
Doubtful	High	50.0
Loss	Uncollectible	100.0

In October 2006, the Bank introduced an internal loan loss allowance methodology, which is based upon IFRS requirements. Under this new policy, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of more than 0.5% of the Bank's total equity and non-significant loans are defined as loans in the amount of less than 0.5% of the Bank's total equity. The Credit Risk Management department makes an individual assessment of significant loans and loans with category A rating are given a collective provision rate which is determined according to the historical loss/recovery statistics of similar types of loans. 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 (i.e., mortgage, auto, consumer, micro-loans, etc.) and provisioned collectively according to the historical loss/recovery statistics of each group. Non-significant loans which are overdue for more then 150 days are written-off automatically. The following table sets out provisioning methodology for significant loans.

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

In the fourth quarter of 2004, the Management Board significantly increased the Bank's provisioning. Total impairment expense for 2004 was GEL 20.5 million (U.S.$11.2 million). As a result of this provisioning, the loan loss provisions/total gross loan portfolio ratio increased from 6.1% at the end of 2003 to 10.1% at the end of 2004. This increase in provisioning was necessary due to the Bank's previous management having failed to recognise certain bad loans over the period from 2002 to 2004 and as a result the Bank having inadequate provisions for loan losses.

Management believes Bank of Georgia is currently one of the most conservatively provisioned banks in Georgia. In 2005, the Bank's loan portfolio quality began to improve as the gross outstanding amortised cost of the Bank's non-standard loans in the portfolio, before deduction of any allowance for impairment, decreased from GEL 37.4 million (U.S.$20.5 million) (19.8% of the Bank's gross loan portfolio) at 31 December 2004 to GEL 33.2 million (U.S.$18.5 million) (10.6% of the Bank's gross loan portfolio) at 31 December 2005. As of 30 September 2006, gross outstanding amortised cost of the Bank's non-standard loans in the portfolio, before deduction of any allowance for impairment, increased to GEL 58.3 million (U.S.$33.6 million), mainly as a result of the Bank's acquisition of the Intellect Bank loan book. 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 30 September 2006.

The Bank has an Asset Recovery department, which reports to the Deputy CEO in charge of risk management. As of 31 December 2004, the gross outstanding amortised cost of the Bank's non-standard loans in the portfolio, before deduction of any allowance for impairment, was approximately GEL 32.0 million (U.S.$17.5 million), of which GEL 12.0 million (U.S.$6.6 million) was written-off as of such date. As of 31 December 2005, GEL 7.2 million (U.S.$4.0 million) of the total gross outstanding amortised cost of the Bank's non-standard loans, before deduction of any allowance for impairment, was repaid. GEL 1.8 million (U.S.$1.0 million) of this amount represented previously written-off loans that were later recovered. During the nine months ended 30 September 2006, the Bank collected another GEL 4.9 million (U.S.$2.8 million) from the

Bank's gross non-standard borrowers, of which GEL 0.7 million (U.S.$0.4 million) were non-standard loans that were previously written-off.

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 risk, 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 responsible for the Risk Management department, 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 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 beneficiary" procedures that require clear identification of the beneficiary in 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 identify, 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 Compliance, Reporting and Analysis department 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 Compliance, Reporting and Analysis department 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 Compliance, Reporting and Analysis department obtains additional information about a particular transaction's purpose and/or suspends suspicious transactions. See "Description of Business—Litigation".

The Compliance, Reporting and Analysis department also provides education and training of personnel regarding Bank of Georgia's anti-money laundering procedures.

See "Risk Factors—Risks Relating to the Bank's Business and Industry—Risks Related to Money Laundering and/or Terrorist Financing".

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 31 December 2003, 2004 and 2005 and as of 30 September 2006.

	As of 31 December						As of 30 September	
	2003		2004		2005		2006	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
	(Percentage)							
Assets								
Amounts due from credit institutions..	–	4.0	10.0	2.0	8.0	2.0	4.0	8.0
Investment securities:								
– held-to-maturity	42.0	–	–	–	14.0	–	14.0	–
– available-for-sale	–		16.0		13.0	–	14.0	–
Loans to customers	24.0	21.0	24.0	20.0	21.0	15.0	23.0	16.0
Liabilities								
Amounts owed to credit institutions..	–	5.0	–	5.0	10.0	7.0	6.0	7.0
Amounts owed to customers	5.0	9.0	5.0	7.0	10.0	8.0	7.0	8.0

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 other liabilities and total liabilities as of the dates indicated:

	As of 31 December			As of 30 September
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			*(Unaudited)*
Three months or less	97,098	209,196	245,197	371,371
More than three months, but less than or equal to one year	25,827	54,533	39,449	165,913
More than one year	50,885	36,734	65,322	155,040
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**173,810**	**300,463**	**349,968**	**692,324**
Other liabilities (maturity undefined)	1,671	7,249	19,140	27,311
Total liabilities	**175,481**	**307,712**	**369,108**	**719,635**

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			As of 30 September
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			*(Unaudited)*
Short term[(1)]	122,925	263,729	284,646	537,284
Long term[(2)]	50,885	36,734	65,322	155,040
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**173,810**	**300,463**	**349,968**	**692,324**

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			As of 30 September
	2003	2004	2005	2006
		(Percentage)		
				(Unaudited)
Short term[1]	71.0	88.0	81.0	78.0
Long term[2]	29.0	12.0	19.0	22.0
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**100.0**	**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			As of 30 September
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			*(Unaudited)*
Loans and advances from banks:				
Lari	43	71	5,023	19,805
Foreign currency	50,194	48,263	73,850	203,398
Total loans and advances from banks	**50,237**	**48,334**	**78,873**	**223,203**
Customer accounts:				
Lari	19,280	59,947	76,495	163,395
Foreign currency	104,293	192,182	193,457	304,598
Total customer accounts	**123,573**	**252,129**	**269,952**	**467,993**
Debt securities issued:				
Lari	–	–	1,143	1,128
Foreign currency	–	–	–	–
Total debt securities issued	–	–	**1,143**	**1,128**
Other liabilities, provisions and income tax liability:				
Lari	1,424	5,935	14,227	23,850
Foreign currency	247	1,314	4,913	3,461
Total other liabilities, provisions and income tax liability	**1,671**	**7,249**	**19,140**	**27,311**
Total liabilities	**175,481**	**307,712**	**369,108**	**719,635**

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			As of 30 September
	2003	2004	2005	2006
	(Percentage)			*(Unaudited)*
Lari	12.0	21.0	26.0	29.0
Foreign currency	88.0	79.0	74.0	71.0
Total liabilities	**100.0**	**100.0**	**100.0**	**100.0**

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

	As of 31 December		As of 30 September	
	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans
	(Amounts in thousands of Lari, except percentages)		*(Unaudited)*	
GEL	47,448	36.3	73,619	38.1
U.S.$	81,642	62.4	117,620	60.9
Euros	1,669	1.3	2,010	1.0
GBP	–	–	2	0.0
Total loans to retail banking and private banking customers	**130,759**	**100.0**	**193,251**	**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		As of 30 September	
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			*(Unaudited)*
Ministry of Finance Treasury Bills	1,683	19,569	7,819	–
Corporate shares	59	59	508	4,818
Corporate bonds	–	–	–	1,343
Available-for-sale securities	**1,742**	**19,628**	**8,327**	**6,161**

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						As of 30 September	
	2003		2004		2005		2006	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
							(Unaudited)	
Ministry of Finance Treasury Bills	43.8	2004	15.8	2005	12.9	2006	–	–
Corporate bonds	–	–	–	–	14.0	2006	14.0	2006

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

	As of 31 December						As of 30 September	
	2003		2004		2005		2006	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
	(Amounts in thousands of Lari)							
							(Unaudited)	
Ministry of Finance Treasury Bills	–	–	–	–	111	114	–	–
Corporate bonds	–	–	–	–	2,169	2,281	253	281
Held-to-maturity securities	–	–	–	–	**2,280**	**2,395**	**253**	**281**

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						As of 30 September	
	2003		2004		2005		2006	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
							(Unaudited)	
Ministry of Finance Treasury Bills	–	–	–	–	13.6	2006	–	–
Corporate bonds	–	–	–	–	14.0	2006	14.0	2006

Loan Portfolio

As of 30 September 2006, the Bank had GEL 560.4 million (U.S.$322.8 million) in loans to customers (net of allowance for impairment losses), representing 65.4% of the Bank's total assets. As of 31 December 2005, loans to customers (net of allowance for impairment losses) amounted to GEL 297.4 million (U.S.$165.9 million), representing 64.6% of the Bank's total assets.

Loans to Customers by Type of Customer

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

	As of 31 December			As of 30 September
	2003	**2004**	**2005**	**2006**
	(Amounts in thousands of Lari)			*(Unaudited)*
Individuals	61,284	73,084	114,427	196,985
Private entities	83,009	109,761	174,492	357,200
State entities	6,685	6,051	25,397	27,498
State budget or local authorities	64	53	–	–
Total loans to customers	**151,042**	**188,949**	**314,316**	**581,683**

Collateralisation

The following table sets out the Bank's total loans to customers (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			As of 30 September
	2003	**2004**	**2005**	**2006**
	(Amounts in thousands of Lari)			*(Unaudited)*
Loans secured by corporate guarantees	4,791	3,469	3,223	17,213
Loans collateralised by pledge of shares of other companies	2,586	1,409	1,586	3,116
Loans collateralised by pledge of equipment	3,112	6,841	4,235	4,962
Loans collateralised by pledge of inventory	1,881	780	889	391
Loans collateralised by Bank of Georgia's promissory notes	–	–	–	–
Other collateralised loans(1)	125,355	162,201	289,016	517,330
Unsecured loans	13,318	14,249	15,367	38,671
Total loans to customers	**151,042**	**188,949**	**314,316**	**581,683**

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 customers (gross of allowance for impairment losses), by economic sector as of the dates indicated.

	As of 31 December						As of 30 September	
	2003		2004		2005		2006	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
	(Amounts in thousands of Lari, except percentages)						*(Unaudited)*	
Trade and Services	67,946	45.0	86,487	46.0	144,489	46.0	241,145	41.0
Individuals	61,284	41.0	73,084	39.0	114,427	36.0	203,857	35.0
Construction	11,512	8.0	14,621	8.0	12,668	4.0	61,464	11.0
Transport and Communication	3,312	2.0	5,817	3.0	13,646	4.0	10,916	2.0
Mining	3,163	2.0	876	–	3,667	1.0	2,274	–
Agriculture	189	–	1,721	1.0	1,055	–	14,072	2.0
Energy	868	1.0	89	–	208	–	9,510	2.0
Other[1]	2,768	2.0	6,254	3.0	24,156	8.0	38,445	7.0
Total	**151,042**	**100.0**	**188,949**	**100.0**	**314,316**	**100.0**	**581,683**	**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 customers (net of allowance for impairment losses), by currency as of the dates indicated.

	As of 31 December						As of 30 September	
	2003		2004		2005		2006	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
	(Amounts in thousands of Lari, except percentages)						*(Unaudited)*	
GEL	22,132	16.0	20,155	12.0	85,189	29.0	169,883	30.0
Other currencies (freely convertible)	119,648	84.0	149,713	88.0	212,187	71.0	390,520	70.0
Other currencies (non convertible)	–	–	–	–	–	–	–	–
Total loans to customers	**141,780**	**100.0**	**169,868**	**100.0**	**297,376**	**100.0**	**560,403**	**100.0**

Loans by Maturity

As of 30 September 2006, loans due within one year or earlier represented 52.7% of the Bank's customer loan portfolio (net of allowance for impairment losses) compared with 48.7% as of 31 December 2005. The following table sets out the maturity structure of the Bank's total loans to customers (net of allowance for impairment losses) as of the dates indicated.

	As of 31 December						As of 30 September	
	2003		2004		2005		2006	
	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans	Amount	% of total loans
	(Amounts in thousands of Lari, except percentages)						*(Unaudited)*	
On demand and up to one month	22,270	16.0	21,269	13.0	39,093	13.0	62,422	11.0
One to three months	10,232	7.0	13,282	8.0	29,968	10.0	73,047	12.0
Three months to one year	32,271	23.0	31,799	19.0	75,655	25.0	160,099	27.0
More than one year	74,967	53.0	102,032	60.0	147,924	50.0	232,000	45.0
Overdue	2,040	1.0	1,486	1.0	4,736	2.0	32,835	6.0
Total loans to customers	**141,780**	**100.0**	**169,868**	**100.0**	**297,376**	**100.0**	**560,403**	**100.0**

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 customers in the Tbilisi region represented approximately 83.0%, 78.7%, 79.6% and 82.2% of the Bank's total loan portfolio as of 31 December 2003, 2004, 2005 and 30 September 2006, respectively.

Loans by Amount and Number of Borrowers

As of 30 September 2006, the exposure of the Bank to its ten largest third-party borrowers amounted to GEL 82.1 million (U.S.$47.3 million), representing 14.1% of total loans to customers (in each case gross of allowance for impairment losses) as compared with GEL 51.2 million (U.S.$28.6 million) (16.3%), GEL 23.6 million (U.S.$12.9 million) (12.5%) and GEL 38.5 million (U.S.$18.6 million) (25.5%) as of 31 December 2005, 2004 and 2003, respectively.

The following table sets out information on the Bank's ten largest borrowers (based on exposure) as of 30 September 2006.

Rank by borrower exposure	Exposure size (net of allowance for impairment losses) (Amounts in thousands of Lari)	Industry sector in which borrower operates
1	8,826	Construction and Real Estate
2	6,862	Energy
3	9,927	Industry
4	9,486	Industry
5	7,182	Industry
6	9,495	Trade and Services
7	6,686	Construction and Real Estate
8	8,879	Construction and Real Estate
9	6,704	Trade and Services
10	8,037	Industry
Total	**82,084**	

PRINCIPAL SUBSIDIARIES

The Bank had the following principal direct and indirect subsidiary undertakings as of 31 December 2006:

Name	Registered office	Activity	Proportion of capital held(%)[1]	Amount of issued capital
Consolidated Subsidiaries – Georgia				
JSC Galt & Taggart Securities	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Brokerage and asset management	100.0	GEL 6,945,627
JSC Insurance Company BCI	50 Chavchavadze Avenue Tbilisi, Georgia, 0179	Insurance	100.0	GEL 1,550,000
JSC Insurance Company EuroPace	Temka, Trade Center, Between blocks IX-X Tbilisi, Georgia, 0178	Insurance	100.0[2]	GEL 500,000
Georgian Leasing Company LLC	70 Kostava Avenue Tbilisi, Georgia, 0171	Leasing	100.0	GEL 580,000
JSC Galt & Taggart Capital	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Investment company	100.0[3]	GEL 452,594
JSC Georgian Card	5 Khodasheni Street Tbilisi, Georgia, 0105	Card processing	55.5	GEL 3,000,000
JSC SB Register	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Registrar	100.0	GEL 200,000
ICT Delameni, LLC	153 Aghmashenebeli Avenue Tbilisi, Georgia	Registrar	100.0	GEL 15,070
Company-Center, LLC	24 Mosashvili Street Tbilisi, Georgia	Registrar	100.0	GEL 2,000
Reestr-Center, LLC	5/7 H. Abashidze Street Batumi, Georgia	Registrar	100.0	GEL 19,230
JSC SB Real Estate	4 Freedom Square, Tbilisi, Georgia, 0105	Real estate development and management	100.0[4]	GEL 415,000
JSC Insurance Company Aldagi[5]	16Melikishvili Str. Tbilisi, Georgia, 0179	Insurance	100.0	GEL 1,000,000
Consolidated Subsidiaries – International				
Galt and Taggart Holdings Limited	Iris Tower, 7th Floor, Office 702, 58 Arch. Makarios III Avenue, Nicosia, Cyprus, 1075	Brokerage and asset management (a holding company)	100.0[6]	CYP 114,000
Galt and Taggart Securities (Ukraine)	15 Gorkogo, office 4, Kiev 01004, Ukraine		100.0[7]	UAH1,250,000
Minority Shareholding Interests – Georgia				
JSC UFC	154 Aghmashenebeli Avenue Tbilisi, Georgia, 0112	Card processing	44.96	GEL 2,313,800[8]
JSC CreditInfo	16 Janashia Street Apartment 2 Tbilisi, Georgia, 0179	Credit bureau	15.3	GEL 343,940[8]
Georgian Stock Exchange	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Stock exchange	7.69	GEL 30,000[8]

Georgian Central Securities Depository	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Securities depository	0.3	GEL 102,200(8)
Tbilisi InterBank Foreign Exchange	4 Galaktioni Street Tbilisi, Georgia, 0105	Foreign currency exchange	16.67	GEL 480,000(8)
Minority Shareholding Interests – International				
Ukrainian bank	Confidential	Banking	2.82(9)	Confidential

Notes:

(1) Percentages of capital held derived from management data.

(2) 80.0% of EuroPace is owned by Bank of Georgia indirectly via BCI. The Bank held back 95,000 Bank of Georgia shares (valued at GEL 7.50 per share) and GEL 587,000.

(3) 62.9% of Galt & Taggart Capital is owned by Bank of Georgia indirectly via Galt & Taggart Securities.

(4) 100.0% of SB Real Estate is owned by Bank of Georgia indirectly via Galt & Taggart Capital.

(5) 100.0% of JSC Insurance Company Aldagi was acquired by BCI in December 2006 and is owned indirectly by Bank of Georgia via JSC Insurance Company BCI.

(6) 100.0% of Galt and Taggart Holdings Limited is owned by Bank of Georgia indirectly via BCI.

(7) 100.0% of Galt and Taggart Securities (Ukraine) is owned by Bank of Georgia indirectly via Galt and Taggart Holdings Limited.

(8) Derived from management data.

(9) Proportion of capital held as of the date of this Prospectus is 9.92%.

In addition, the Bank's consolidated subsidiaries include certain merchant banking assets. See "Description of Business—Banking Products, Services and Activities—Merchant Banking".

MANAGEMENT AND EMPLOYEES

Overview

Bank of Georgia's corporate bodies are the General Meeting of Shareholders ("**GMS**"), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and the 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 GMS, which mainly oversees the correct functioning of the internal audit system of the Bank.

General Meeting of Shareholders

According to the Charter, the annual GMS must be held not later than two months following the completion of an external audit of the Bank of Georgia's books and in no case 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 the Bank's shares should be notified about the GMS via registered mail. The agenda for the annual GMS must contain the following subjects for discussion:

- discussion of the annual report;
- discussion and adoption of the annual accounts;
- discussion of the proposal(s) of the Management Board and Supervisory Board regarding distribution of dividends;
- discussion of the Bank's reserves and dividend policy and a justification of such policy by the Management Board; and
- other subjects presented for discussion by the Management Board or the Supervisory Board and announced with due observance of the provisions of the Charter, 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 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 quorum is satisfied 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 holding more than 5.0% of the shares of Bank of Georgia deems such meeting necessary. Shareholders who individually or together hold at least 5.0% of the total issued capital, may, stating the subjects to be discussed, request that the Management Board convene an extraordinary GMS. If the Management Board does not convene a meeting within 20 days of a request, the persons who made the request may apply to the court with the request.

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 Chief Executive Officer. The minutes of the meeting are kept by a notary.

All shareholders and other persons entitled pursuant to Georgian law or the Charter to attend and/or vote at the GMS are entitled to attend the GMS, to address the GMS and if applicable to vote. 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 share holders, for example in lieu of dividends being distributed on preferred shares. Shareholders may be represented at the GMS by a proxy.

The convening of the GMS is not necessary if a shareholder holding more than 75.0% of Bank of Georgia's voting shares decides the issue(s) on the agenda. 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.

The GMS is authorised under Georgian law and under the Charter to pass resolutions on the following issues:

- approval and amendment of the Charter;
- increase and reduction of authorised share capital;
- liquidation of Bank of Georgia;
- mergers, divisions or transformations 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 authorised 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 distribution of profits;
- election or dismissal of Supervisory Board members and 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 and dismissal of Audit Committee members (including the chairman);
- remuneration of Audit Committee members;
- election of the auditor and the special inspector;
- 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 other 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.

The powers listed above are within the exclusive scope of authority of the GMS and may not be delegated to the other corporate bodies of Bank of Georgia.

Supervisory Board

In accordance with Bank of Georgia's Charter, it is the duty of the Supervisory Board to supervise the Management Board. The Supervisory Board also assist 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.

The Supervisory Board may decide, by simple majority vote, to create committees. The composition of such committees and their tasks are determined by the Supervisory Board. Committees report their conclusions and recommendations to the Supervisory Board.

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 personally or with the help of invited experts;
- requesting reports on the Bank of Georgia's activities from the Management Board and reviewing the information provided by Internal Audit or external inspections;
- convening an extraordinary GMS, if necessary;
- reviewing annual reports and the proposals of the Management Board on profit distribution;
- determination of remuneration of the Management Board;
- representing Bank of Georgia in proceedings against Bank of Georgia's CEO and other directors;
- approving annual budget; and
- making decisions in other cases provided by applicable laws.

The Supervisory Board consists of five members. The GMS appoints and dismisses the members of the Supervisory Board. 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 of one or more candidates for each vacant seat of the Supervisory Board. Furthermore, holders of shares jointly representing at least 20.0% of the issued share capital have the right to nominate and elect, 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 a method of cumulative voting.

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 five 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
Lado Gurgenidze	36	Chairman of the Supervisory Board	2006	2010[1]
Nicholas Enukidze ..	36	Vice-Chairman of the Supervisory Board	2006	2010
Ian Hague	45	Supervisory Board Member	2004	2008
Jyrki Talvitie	40	Supervisory Board Member	2006	2010
Allan J. Hirst	57	Supervisory Board Member	2006	2010

Notes:

(1) The current service agreement of Mr. Gurgenidze terminates in September 2007.

Lado Gurgenidze has served, since May 2006, as the Chairman of the Supervisory Board of Bank of Georgia. Prior to his election as the Chairman of the Supervisory Board, Mr. Gurgenidze served as the Chief Executive Officer of Bank of Georgia since October 2004. Currently, Mr. Gurgenidze also serves as Chairman of the Supervisory Board of Galt & Taggart Securities, GTC and Georgian Card and as a Supervisory Board member of the Georgian Stock Exchange. Mr. Gurgenidze will be replaced as Chairman of the Supervisory Board of Georgian Card by Mr. Irakli Gilauri. Prior to his appointment as Bank of Georgia's Chief Executive Officer, Mr. Gurgenidze served as a Managing Director and Regional Manager for Europe at Putnam Lovell NBF, a leading global boutique investment banking firm focusing on the financial services sector. Putnam Lovell NBF is wholly-owned by the National Bank of Canada, the sixth largest Canadian bank since July 2003. Prior to joining Putnam Lovell NBF, Mr. Gurgenidze served in various senior capacities at ABN AMRO Corporate Finance, including as a Managing Director and Head of Technology Corporate Finance (2001-2002) and as a Director and Head of Mergers and Acquisitions in the Emerging European Markets (1998-2000). Prior to moving to London in 1998, Mr. Gurgenidze served as the Director of ABN AMRO Corporate Finance in Russia & CIS (1997-1998). Mr. Gurgenidze started his investment banking career with the CEE corporate finance arm of MeesPierson. A career banker with approximately ten years of investment banking experience, Mr. Gurgenidze is a dual British and Georgian citizen of Georgian descent. Mr. Gurgenidze conducted his undergraduate studies at Tbilisi State University and Middlebury College and received his MBA from the Goizueta School of Business of Emory University.

Nicholas Enukidze was recently appointed as Vice-Chairman of the Supervisory Board. Prior to this appointment, Mr. Enukidze served, from May to November 2006, as Special Adviser to the Supervisory Board of Bank of Georgia. Prior to joining Bank of Georgia, Mr. Enukidze served as Managing Director of Corporate Finance for Concorde Capital, a leading Ukrainian investment banking firm. Prior to joining Concorde Capital, Mr. Enukidze served as Assistant Director at ABN AMRO Corporate Finance Technology, M&A Advisory and Global Growth Markets teams in London for four years. Prior to joining ABN AMRO Corporate Finance in London in 2001, Mr. Enukidze worked as Senior Manager of business development of Global One Communications LLC based in Reston, Virginia. Prior to joining Global One Communications, Mr. Enukidze spent three years at ABN AMRO Corporate Finance in Moscow focusing on the telecommunications industry. Mr. Enukidze also serves as a member of the Supervisory Board of BCI, Galt & Taggart Capital and JSC SB Real Estate and as a director of Galt and Taggart Holdings Limited. Mr. Enukidze was born and raised in Tbilisi and currently resides in the United Kingdom. He received his undergraduate degree in Physics from the Tbilisi State University and received his MBA from the University of Maryland.

Ian Hague has been a member of the Supervisory Board since December 2004. Mr. Hague currently serves as the Managing Partner of Firebird Management LLC. Prior to co-founding Firebird, 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. Mr. Hague has also conducted graduate work at Columbia University's Harriman Institute.

Jyrki Talvitie has been the member of the Supervisory Board of Bank of Georgia since May 2006. Mr. Talvitie currently serves as the 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 from 2003 until 2005. Prior to moving to Moscow in 2003, Mr. Talvitie was employed as Senior Vice President at BNP Paribas in Paris, Vice President at Bank of New York in London and Vice President, Chief Representative at 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.

Allan J. Hirst was employed with Citibank N.A. for nearly 25 years. Prior to his retirement from Citigroup in February 2005, he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999-2004, Mr. Hirst served as President of ZAO Citibank Russia, as well as Managing Director with an oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr. Hirst worked in various senior capacities at Citigroup, including as Division Executive with the managerial oversight over corporate and investment banking business 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 and Member of Executive Committee of the Board of the Financial Services Volunteer Corps, Non-Executive Director of Phico Theurapeutics and Non-Executive Director of RosBank. Mr. Hirst also serves as Chairman of the Audit Committee, a Member of the Compensation Committee and Member of the Strategy Committee of RosBank. Mr. Hirst received an MBA from University of Texas.

Management Board

The Management Board is an executive body that is responsible for the day-to-day management of Bank of Georgia (exception of those functions reserved to the GMS and the Supervisory Board) and consists of the CEO and up to four directors. The Management Board is accountable to the GMS and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. Certain resolutions of the Management Board are subject to the prior approval of the Supervisory Board. The Supervisory Board determines the remuneration and further conditions of employment for each member of the Management Board, within the remuneration policy adopted by the GMS. The Supervisory Board is entitled to dismiss members of the Management Board.

The Management Board is responsible for:

- 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 & 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 by 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 extraordinary GMS, 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;
- partial or total investments, the 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 economic policy, business plan and strategy for Bank of Georgia's development, acceptance of annual budget and long-term liabilities;
- determination of training, hiring, remuneration and/or additional benefits for Bank of Georgia's staff;
- appointment and discharge of trade representatives;
- approval of an agreement or contract as a result of 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, their classification and adequate provisioning;
- 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 Georgian law.

The Management Board is headed by the CEO. The CEO delegates tasks to the directors with the consent of the 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. The CEO (i) chairs meetings of the Management Board, supervises the implementation of decisions of the Management Board, Supervisory Board and the GMS, assigns tasks among the Management Board members and other managers of Bank of Georgia, issues relevant orders, instructions and other directives for these purposes; (ii) submits for approval by the Supervisory Board, recommendations on the remuneration and bonuses of Bank of Georgia's employees; and (iii) appoints and dismisses employees in accordance with the employee recruitment plan approved by the Management Board.

Bank of Georgia's Management Board currently consists of the four 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	30	Chief Executive Officer	2006	2009
Irakli Burdiladze	32	Chief Financial Officer	2006	2009
Ramaz Kukuladze ..	35	Deputy Chief Executive Officer	2006	2009
Sulkhan Gvalia	32	Deputy Chief Executive Officer	2005	2009

Irakli Gilauri has served as the CEO of Bank of Georgia since May 2006. Prior to his appointment as the CEO of Bank of Georgia, Mr. Gilauri served as CFO since September 2004. Prior to his appointment as CFO, Mr. Gilauri was employed as a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian Companies, including several financial institutions. Mr. Gilauri received his undergraduate degree in Business Studies: Economic and Finance from the University of Limerick and was awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of the City University, where he obtained his Master of Science Degree in Banking and International Finance.

Irakli Burdiladze has served as CFO of Bank of Georgia since March 2006. 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 received his undergraduate degree from the Tbilisi State University.

Ramaz Kukuladze has served as Deputy CEO responsible for Corporate and Investment Banking since January 2006. Prior to his appointment as Deputy CEO, Mr. Kukuladze served as CEO of BCI which he co-founded in 1998. Prior to founding BCI, Mr. Kukuladze served as Managing Director at Project Support Consultants. He also held various senior positions at Absolut Bank and TbilCredit Bank. Mr. Kukuladze graduated from the Bank Academy of ESM University and received his undergraduate degree from Tbilisi Georgia and holds BA in Economics: Banking and Finance from Tbilisi State University.

Sulkhan Gvalia has served as Deputy CEO of Bank of Georgia responsible for Credit Management and Asset Recovery since January 2005. Prior to his appointment at Bank of Georgia, Mr. Gvalia served as the Deputy Chairman of the Management Board of TUB since 1995. During his tenure at TUB, Mr. Gvalia spearheaded several departments at TUB, including finance, accounting and strategy. Mr. Gvalia received his undergraduate degree from Tbilisi State University.

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
Gvantsa Shengelia	35	Head of Compliance, Reporting and Analysis	2005
Macca Ekizashvili	32	Head of Investor Relations	2004
Thea Jokhadze	30	Head of Funding	2005
Ekaterine Kvantrishvili	27	Head of Retail Banking	2005
George Paresishvili	33	Head of Asset and Wealth Management	2005
Tornike Gogichaisvhili	27	General Director of BCI	2006
Lekso Liparteliani	32	Co-Head of Corporate & Investment Banking	2005
Vasil Khodeli	30	Co-Head of Corporate & Investment Banking	2004
Eli Enoch	34	Head of Galt & Taggart Capital	2006
David Vakhtangishvili	28	Head of Finance Department	2007

Gvantsa Shengelia has served as the Head of Compliance, Reporting and Analysis at Bank of Georgia since August 2005. Ms. Shengelia has more than ten years of work experience in the United States, of which approximately five years in various back-office positions at Deutsche Bank and Morgan Stanley (including as Section Head of Financial Reporting).

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 International Finance Corporation 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 Maters 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.

Ekaterine Kvantrishvili has served as the Head of Retail Banking since July 2005. Prior to joining Bank of Georgia, Ekaterina Kvantrishvili was Head of Collections at Rusfinance (the Russian consumer lending joint venture between Société Générale and Baring Vostok Capital Partners). Ekaterina Kvantrishvili holds an undergraduate degree from Boston University School of Management.

George Paresishvili has served as the Head of Asset and Wealth Management at Bank of Georgia since May 2005. Mr. Paresishvili joined Bank of Georgia from Credit Suisse First Boston, where he worked in Emerging Markets Trading in London and Mortgage Trade Finance in New York. Mr. Paresishvili holds an MBA from Ross Business School of the University of Michigan.

Tornike Gogichaishvili has served as the General Director of BCI since January 2006. Prior to joining BCI, Mr. Gogichaishvili worked as CFO at PA Consulting Group/United Energy Distribution Company ("**UEDC**") of Georgia. 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 legal counsel in 2002 and 2003. Mr.

Gogichaishvili holds an MBA from Caucasus School of Business and an LLM from Tbilisi State University, Faculty of International Law and International Relations.

Lekso Liparteliani has served as Co-Head of Corporate & Investment Banking at Bank of Georgia since December 2005. Prior to this appointment, Mr. Liparteliani worked as the Head of Investment Banking at Galt & Taggart Securities where he started as a research analyst in January 2001. Mr. Liparteliani completed post graduate studies in mathematics at the Tbilisi State University in June 1999 and received his undergraduate degree in mathematics from the Tbilisi State University in June 1996.

Vasil Khodeli has served as Co-Head of Corporate & Investment 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.

Eli Enoch was appointed in July 2006 as the CEO of Galt and Taggart Capital. Prior to being appointed to this position, Mr. Enoch worked as Executive Director at Caucasus Financial Services, a Georgian investment banking firm. Prior to joining Caucasus Financial Services, Mr. Enoch served as the Financial Director of the World Congress of Georgian Jews (the "**WCGJ**"), based in Tel-Aviv, Israel. WCGJ is a non-governmental organisation, which represents Jews of Georgian descent worldwide and engages in various projects aimed at promoting the Georgian Jews in the fields of education, culture, heritage and employment, among others. Prior to his appointment at WCGJ, Mr. Enoch worked as an Investment Analyst at US-based TKTel, a private equity company. Prior to joining TKTel, Mr. Enoch served in various capacities in the Israeli Navy, including as Head of Sales Section, Director of Financial Information Systems, Assistant Head of Weapons & Platforms and HR Budget Section. Mr. Enoch was born and raised in Georgia and moved to Israel in 1992. Mr. Enoch received his MBA from Tel Aviv University and BA from the Hebrew University in Jerusalem.

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.

Audit Committee

According to the Banking Law, Georgian banks are required to have an audit committee which mainly oversees the correct functioning of the internal audit system of the bank. Bank of Georgia's Audit Committee is comprised of three members, who are appointed by the GMS for a term of four years. An individual cannot be elected as a member of the Audit Committee if he/she is a member of the Supervisory Board or the Management Board. The Audit Committee controls the financial and commercial operation of the Management Board, conducts scheduled and ad hoc audits of Bank of Georgia and reports to the GMS and the Supervisory Board.

The rights and obligations of the Audit Committee are as follows:

- 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 Board;
- 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 prepared by the internal audit service and perform the plan's quarterly review;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and performance and make appropriate decisions;
- together with the Supervisory Board and Management Board ensure the cooperation of the interna 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 the remuneration of such staff; and
- 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.

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. The Audit Committee is presided over by the chairman who is elected by the GMS.

The names of Bank of Georgia's Audit Committee members, together with their respective ages, positions and terms are set out below. The business address for all of the Audit Committee members is 3 Pushkin Street, Tbilisi, Georgia, 0105.

Name	**Age**	**Current Position**	**Year Appointed**	**Expiration of Term**
Irakli Rekhviashvili	31	Chairman	2004	2008
Victoria Shtorm............	34	Member	2006	2010
Dmitri Kemoklidze	36	Member	2006	2010

Irakli Rekhviashvili was elected to and appointed as the Chairman of the Audit Committee of Bank of Georgia in December 2004. Since 2004, Mr. Rekhviashvili has worked as a Consultant at Open Society institute Budapest in Budapest, Hungary and served as an Advisor at Channel Energy Poti in Tbilisi, Georgia. Prior to moving to Budapest, Mr. Rekhviashvili served as Minister of Economy of Georgia (December 2003-June 2004). Before this appointment, Mr. Rekhviashvili served as Project Manager, Local Government Initiative at Open Society Institute in Budapest, Hungary. Prior to joining Open Society Institute, Mr. Rekhviashvili spent two years at the Word Bank Group in Washington D.C., where he worked as a Consultant focusing on Europe and Central Asia Region. Mr. Rekhviashvili holds an MPA degree in Development Studies from Princeton University's Woodrow Wilson School of Public and International Affairs.

Victoria Shtorm is an international lawyer manager specialising in corporate and project finance with seven years experience of investment project implementation in Eastern Europe. Currently, Ms. Shtorm serves as Director of Corporate Affairs at Iberia Refreshments, the PepsiCo bottler in Georgia. From 1999 to 2004, Ms. Shtorm served as an in-house counsel and project manager at the European Bank for Reconstruction and Development in London, UK. Prior to joining the EBRD, Ms. Shtorm worked as a lawyer at private law firms in Kyiv, Ukraine and London, UK. Ms. Shtorm received an LLM degree from Duke University School of Law and LLM degree from Institute of International Relations in Kyiv, Ukraine.

Dimitri Kemoklidze has served as Restructuring and Development Agency Director at the Gergian Railway since August 2004. Prior to this appointment, Mr. Kemoklidze worked as International Trade Project Coordinator at Georgian European Policy and Legal Advise Center since July 2003. Additionally, Mr. Kemoklidze has served as a Supervisory Board Member of CreditInfo Georgia, a Supervisory Board member of United Energy Distribution Company and has served as a member of the WTO accession working group and as Head of Department at the Ministry of Economy of Georgia. Mr. Kemoklidze received an undergraduate degree in Economics from Tbilisi State University.

Remuneration and Benefits

The aggregate remuneration of the Management Board and the Supervisory Board was GEL 0.9 million (U.S.$0.5 million) for the nine months ended 30 September 2006. 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. Gurgenidze and Mr. Enukidze, its members acting as the de facto Remuneration Committee) determines on an annual basis the amount of the cash bonus of the members of the Supervisory Board and Management Board members. Bank of Georgia practices one-year deferment 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 2004, 50.0% and 25.0% of the cash bonus of Mr. Gurgenidze and Mr. Gilauri, respectively, were deferred for 12 months and 25.0% of Mr. Gilauri's cash bonus was deferred for 24 months, all cash bonuses subject to their continued employment on 1 January of the following year. In line with Bank of Georgia's bonus deferment policy, such deferred portions of the cash bonus have been 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 2005, as per IFRS accounts.

Name	**Current Position**	**Remuneration[(1)] (in Lari)**
Lado Gurgenidze	Chairman of the Supervisory Board	1,538,478
Irakli Gilauri......................	Chief Executive Officer	205,573
Sulkhan Gvalia.................	First Deputy CEO	78,812
Macca Ekizashvili	Head of Investors Relations	59,008
Tamar Megrelishvili..........	Head of Marketing and PR	54,979

Notes:

(1) The amounts of remuneration of management may differ materially for Georgian tax purposes as compared to such amounts calculated in accordance with IFRS. For example, largely as a result of the differences in the treatment of share-based compensation, Mr. Gurgenidze's remuneration for Georgian tax filing purposes for the year ended 31 December 2005 was approximately GEL 3.1 million.

On 20 August 2004, Mr. Gurgenidze entered into a three-year service agreement with Bank of Georgia, whereby subject to continued employment with Bank of Georgia, Mr. Gurgenidze is entitled to a certain number of Bank of Georgia ordinary shares. On 6 October 2004, Mr. Gurgenidze was initially granted 600,000 newly issued ordinary shares, of which 13,889 shares vest on a monthly basis for three years beginning 1 October 2004 so long as Mr. Gurgenidze is employed with the three-year period. The remaining 100,000 shares fully vested as of 31 December 2005. The fair value of the shares as of 20 August 2004 was GEL 3.299 per share, such fair value calculation being based on the weighted average observable market prices for the shares traded at Georgian Stock Exchange on 20 August 2004. In May 2006, the GMS elected Mr. Gurgenidze to the Supervisory Board (which subsequently elected him Chairman) and reaffirmed the terms of his service agreement. As of the date of this Prospectus, no other employees or Supervisory Board members have agreements that entitle them to guaranteed purchases of shares of Bank of Georgia on any terms.

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 2005, 2004 and 2003 and 30 September 2006, total loans outstanding, net, issued to management members of Bank of Georgia totalled GEL 1.1 million (U.S.$0.6 million), GEL 0.6 million (U.S.$0.3 million), GEL 0.7 million (U.S.$0.3 million) and GEL 0.3 million (U.S.$0.2 million), respectively.

Interests of Management

The following table shows the beneficial ownership of Bank of Georgia's 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]
Lado Gurgenidze	Chairman of the Supervisory Board	420,133
Sulkhan Gvalia..................	Deputy Chief Executive Officer	237,333
Ramaz Kukuladze	Deputy Chief Executive Officer	23,788
Irakli Gilauri......................	Chief Executive Officer	16,666
Macca Ekizashvili	Head of Investor Relations	3,146
Eka Kvantrishvili	Head of Retail Banking	2,977
Giorgi Paresishvili	Head of Asset & Wealth Management	2,799
Lekso Liparteliani	Co-Head of Corporate & Investment Banking	1,133
Vasil Khodeli	Co-Head of Corporate & Investment Banking	991
Thea Jokhadze	Head of Funding	393
Gvantsa Shengelia	Head of Compliance, Reporting and Analysis	166

Notes:

(1) These figures include shares held in the form of GDRs.

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 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 2003, 2004, 2005 and 30 September 2006, the Bank had a total of 878, 968, 1,174 and 2,151 employees, respectively.

Annual employee turnover of the Bank on average did not exceed 8.0% in 2004 and 2005.

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. In 2004, this agreement was extended until 2008. The Bank has subsequently limited its relations with the trade union to paying membership fees to employees who are still trade union members. The Bank has made a decision not to extend the term of its agreement with the trade union after 2008.

The Bank is required to pay a social 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 November 2006, approximately 130 employees, excluding members of the Management Board, held an aggregate of approximately 160,000 shares in Bank of Georgia, representing approximately 1.0% 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 5.0%.

Executive Equity Compensation Plan

On 6 November 2006, the Bank established the EECP, which is being implemented through a Jersey trust administered by Abacus Corporate Trustee Limited. The Bank settled the trust with GEL 1.5 million. In connection with the EECP, the trust subscribed, to 850,000 ordinary shares in the form of restricted GDRs of Bank of Georgia at the time of Bank of Georgia's initial public offering. The trust is further expected to subscribe to an additional 650,000 ordinary shares of Bank of Georgia in the form of restricted GDRs, which Management expects to occur in 2007, subject to the availability of authorised but unissued shares. The Bank anticipates that the trust will not need to subscribe to any additional shares for at least three years. Furthermore, although all awards pursuant to the EECP will be recommended by the Supervisory Board in its sole discretion upon recommendation of the Compensation Committee, the Bank expects that no more than 500,000 shares or entitlements thereto will be awarded in any given year. Awards of the shares or entitlements thereto pursuant to the EECP will generally be subject to three year vesting. However, in the event of a change of control, all unvested awards become vested and unawarded shares are deemed awarded and vested immediately. The Supervisory Board may, in its sole discretion, apply vesting conditions to awards granted in any given year.

In December 2006, Bank of Georgia's Supervisory board recommended and Abacus Corporate Trustee Limited resolved to award 206,000 Bank of Georgia ordinary 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 are subject to three year vesting. The first tranche of the awards vested on 31 December 2006.

For information regarding the management and employees of the Issuer, see "The Issuer".

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the ordinary shares of Bank of Georgia as of 31 December 2006.

	Ownership of shares	
Owner	**Number**	**%**
GDR Holders (through The Bank of New York)	10,840,538	43.0
Bank Austria Creditanstalt[1]	4,166,242	16.5
Firebird Avrora Fund	1,463,682	5.8
Firebird Republics Fund	1,430,145	5.7
East Capital Financial Institutions AB II	1,366,306	5.4
Firebird Global Master Fund	668,795	2.7
Galt & Taggart Securities (nominees)[2]	629,241	2.5
East Capital Bering Ukraine Fund	570,000	2.3
Bryum Limited	396,583	1.6
Lado Gurgenidze	376,244	1.5
SEB Vilniaus Bankas (nominees)[3]	282,661	1.1
Sulkhan Gvalia	224,000	0.9
Sub-Total	22,414,437	88.9
Retail Free Float	2,787,572	11.1
Total	**25,202,009**	**100.0**

Notes:

(1) Bank Austria Creditanstalt has issued call warrants against its holding of shares. These call warrants were structured by CA IB, an equity brokerage and investment banking unit of Bank Austria Creditanstalt, and are listed on the Vienna Stock Exchange. The call warrants have been purchased by a number of institutional investors.

(2) Galt & Taggart Securities owns these shares as nominee for several institutional investors, and the shares beneficially owned by Galt & Taggart Securities.

(3) SEB Vilniaus Bankas owns these shares as nominee for Finasta Asset Management and Finasta New Europe Fund.

None of Bank of Georgia's shareholders has voting rights different from any other holders of Bank of Georgia's shares.

Related Party Transactions

In the ordinary course of its business, the Bank has engaged, and continues to engage, in transactions with related parties. 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. Bank of Georgia believes that the terms of its related party transactions were conducted on market terms and at market prices except for certain of the loans issued to associates, which were granted with principal and interest payable at maturity.

The Supervisory Board has adopted certain procedures relating to the approval of transactions with related parties.

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 25 to the Annual Financial Statements and Note 25 to the Interim Financial Statements.

	2003				2004				2005			
	Share-holders	**Entities under common control**	**Asso-ciates**	**Top manage-ment per-sonnel**	**Share-holders**	**Entities under common control**	**Asso-ciates**	**Top manage-ment per-sonnel**	**Share-holders**	**Entities under common control**	**Asso-ciates**	**Top manage-ment per-sonnel**
					(Amounts in thousands of Lari)							
Loans outstanding as of 1 January, gross	130	–	693	202	253	–	1,730	694	–	6,190	966	652
Loans issued during the year	287	–	3,379	540	–	6,675	1,693	663	–	14,201	2,720	918
Loan repayments during the year	164	–	2,342	48	(253)	(485)	(2,457)	(705)	–	(3,658)	(414)	(427)
Loans outstanding as of 31 December, gross	253	–	1,730	694	–	6,190	966	652	–	16,733	3,272	1,143
Less: Allowance for impairment as of end of period	(5)	–	(35)	(14)	–	(124)	(337)	(15)	–	(1,257)	(116)	(23)
Loans outstanding as of 31 December, net	248	–	1,695	680	–	6,066	629	637	–	15,476	3,156	1,120
Deposits as of 1 January	–	112	54	–	–	541	105	7	–	2	1,837	12
Deposits received during the year	362	2,899	5,574	609	–	4	15,029	6,409	–	252	23,457	5,062
Deposits repaid during the year	362	2,470	5,523	602	–	(543)	(13,297)	(6,404)	–	(2)	(23,543)	(4,961)
Deposits as of 31 December	–	541	105	7	–	2	1,837	12	–	252	1,751	113
Interest income on loans	7	–	112	4	–	18	190	35	–	1,312	255	118
Impairment of loans	–	–	1	1	–	124	325	2	–	1,058	(221)	8
Interest expense on deposit	–	2	4	1	–	–	73	4	–	1	71	5
Commitments and guarantees received	–	–	–	–	–	–	–	–	–	2,932	8	–
Fee and commission income	–	2	3	–	–	–	19	2	–	28	36	2

	Nine months ended 30 September 2006			
	Share-holders	**Entities under common control**	**Associates**	**Top manage-ment personnel**
	(Amounts in thousands of Lari)			
Loans outstanding as of 30 September, gross	121	7,138	4,735	341
Less: Allowance of impairment as of end of period	–	(141)	(138)	(7)
Loans outstanding as of 30 September, net	121	6,997	4,597	334
Deposits as of 30 September	11,115	4	1,377	1,958
Interest income on loans	2	2,447	814	58
Impairment of loans	–	–	–	–
Interest expense on deposits	5	–	100	29
Commitments and guarantees received	–	–	–	–
Fee and commission income	–	12	15	1

BANKING SECTOR AND BANKING REGULATION IN GEORGIA

Introduction

The Georgian banking sector consists of Georgian banks and non-bank depository institutions. Non-bank depository institutions provide only limited banking services, such as maintaining accounts and making payments, while banks provide a wide range of banking services. The NBG is Georgia's central bank and among its other responsibilities, the NBG establishes mandatory financial ratios, monetary policy, exchange controls, issues licences and money and regulates accounting and reporting rules.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the FSU 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; however many of the practices in place when it was part of the FSU 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 USSR, followed by a military coup, civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet republics. 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. The majority of commercial banks in 1994 were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all 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 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 norms. The NBG's banking supervision policy was based on the 25 Key Principles of Efficient Banking Supervision developed by Basel Committee of Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification to identify credit risks with greater precision, to enhance external and internal auditing functions and to eliminate conflicts of interests in banking activities. As a result of these changes, the number of commercial banks in Georgia was reduced by 173 to 53 during the three years from 1994 to 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 by almost 8.7 times in real terms, compared with an increase in GDP of 1.6 times over the same period.

In 1997, further bank 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 to commercial banks operating in the territory. 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 licences of banks which failed to meet minimal capital requirements and other prudential regulations.

1998 was marked by the Russian financial crisis, which 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 norms in order to stabilise the Georgian banking sector and prepared a plan to assist banks 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.

From 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 one capital and 15.0% for total capital. Furthermore, banks were required to appoint international audit 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 NBG analysts to assess the performance of banks and 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 norms by the NBG, the number of licenced commercial banks had decreased to 30 by 31 December 2000 and to 19 by 31 December 2005 and 17 as of 30 November 2006.

Overview of the Georgian Banking Sector

The Georgian banking sector still accounts for a relatively low share of the Georgian economy as a whole, but it has experienced rapid growth in recent years. According to information published by the NBG, in 2005, the gross assets of the Georgian banking sector grew by 50.0% and comprised GEL 2.5 billion (U.S.$1.4 billion) as of 31 December 2005, while aggregate loans granted by Georgian banks grew by 85.0% during 2005 and the ratio of loans to GDP in 2005 was 14.9% as compared to 9.8% in 2004. The aggregate statutory capital of Georgian banks was GEL 479 million (U.S.$267 million) as of 31 December 2005 (representing a 28.0% increase since the beginning of the year), while aggregate profits of Georgian banks was GEL 61.0 million (U.S.$34.0 million) for 2005 (representing an increase of 125.0% compared with 2004). The return on assets (ROA) of the banking sector in 2005 was 3.1% and the return on equity (ROE) was 14.9%.

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 2005, loans to private sector borrowers represented 67.0% of all loans granted by commercial banks in Georgia, while investment securities accounted for 1.1%. Aggregate gross loans amounted to GEL 1.7 billion (U.S.$0.9 billion) as of 31 December 2005, representing an increase of 83.0% year-on-year, while loans denominated in GEL increased by 200.0% and loans denominated in foreign currency by 67.0% over the same period. Based on information published by the IMF, during 2005, the average loan size increased by GEL 1,500 (U.S.$837) to GEL 5,900 (U.S.$3,291), partly as a result of the introduction of simplified loan applications, especially for small loans, where requirements for collateral have been substantially reduced or disapplied.

The overall quality of loans granted by Georgian banks is improving. Based on information published by the NBG, as of 31 December 2005, non-performing loans constituted only 1.3% of the gross loan portfolio of the entire sector. There has also been an increase in long term loans (with a maturity of more than one year), from 27.0% in 2000 to 64.2% as of 31 December 2005.

In 2005, the majority of gross liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 63.6% and borrowings for 21.8% of gross liabilities. During 2005, deposits in banks grew by 31.0%, of which there was a 45.0% growth in GEL deposits and a 26.4% growth of deposits in foreign currencies, indicating an increased confidence of Georgians in the banking sector.

Interest rates on bank loans have decreased over the last few years. Based on information published by the NBG, average interest rates on loans granted by commercial banks were 27.0% in 2004 and 19.5% in 2005. Average interest rates on loans denominated in GEL decreased from 20.0% to 17.4% in 2004 and 15.9% by the end of 2005. Average interest rates on foreign currency deposits decreased from 9.0% in to 7.8% in 2004 whereas average interest rates on GEL denominated bank deposits increased on average from 8.6% in 2004 to 9.3% in 2005.

Based on information published by the NBG, the NBG's international exchange reserves substantially increased in 2005 and comprised U.S.$474.8 million as of the year-end. The nominal exchange rate of the Lari against the U.S. dollar appreciated by 5.4% in 2005, while inflation as measured by period end CPI decreased to 6.2% in 2005.

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 this is gradually decreasing. Based on information published by the NBG, in the period from 2004 to 2005, the portion of current deposits denominated in U.S. dollars decreased from 60.4% to 51.9%, although there was not significant reduction in U.S. dollar-denominated time deposits, reflecting 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 U.S. dollars decreased from 88.0% to 74.4% over the period from 2004 to 2005, of which the main reduction in U.S. dollar-denominated borrowing was in short-term loans. The portion of short-term loans denominated in U.S. dollars decreased from 83.0% to 57.7% from 2004 to 2005 while the portion of long-term U.S. dollar-denominated loans (with a maturity of one year or more) decreased from 96.0% to 84.5% 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.

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 (which only applied to investors other than banks, whether Georgian or foreign) 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 50.0% of the total capital investment in the Georgian banking sector as of 31 December 2005. As of the same date, ten commercial banks representing 76.0% of the gross assets of the Georgian banking sector had foreign capital investment, which accounted for more than 50.0% of the capital in each of these banks. Major foreign investors in the Georgian banking sector include the EBRD, International Financial Corporation (IFC), Société Générale (France), Kreditanstalt für Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, Commerzbank (Germany), Vneshtorgbank (Russian Federation), Bank Turan-Alem (Kazakhstan), Bank Austria Creditanstalt (on behalf of institutional investors) and Cascade Bank (Armenia).

In addition, two foreign banks currently operate in Tbilisi: Ziraat Bank (Turkey) and the Azerbaijani Development Bank of the Caucasus.

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 30 September 2006 the aggregate assets of all banks in Georgia were approximately GEL 3.8 billion (U.S.$2.2 billion), with the five largest banks accounting for approximately 80.0% 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 GEL (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 amounted to GEL 68.0 million (U.S.$37.3 million) in 2004 and GEL 126.0 million (U.S.$70.3 million) in 2005.

Credit Ratings

In December 2005, Standard & Poor's awarded Georgia a long term sovereign credit rating of B+ and a short term sovereign credit rating of B. Management expects that this rating will enable the banking sector to attract credit resources at a relatively low cost. On 22 November 2006, Standard & Poor's revised its outlook on Georgia from positive to stable, as a result of potentially increased political risk.

Several Georgian banks, including the Bank, have been rated by international rating agencies.

Role of the National Bank of 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 independently exercise its monetary and supervisory functions.

The supreme body of the NBG is its Council, which has nine members. The Council is responsible for the formulation of the monetary and foreign exchange policies of Georgia and is the supreme authority for the supervision of the NBG's activities. The President of the NBG is also Chairman of the Council. In addition to the Chairman, the Council consists of three Vice-Presidents and five other members. Members of the Council are elected for a seven-year term by Parliament and are eligible for reappointment. Pursuant to Article 64 of the Constitution of Georgia, members of the Council may be removed only by a decision of Parliament and a new member must be elected to replace him or her. The President and the Vice-Presidents 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 and regulate the import and export of bank notes. 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 NBG is responsible for setting minimum reserves of banks and non-bank depositary institutions and may increase minimum reserves as it deems appropriate. The NBG has the power to impose sanctions on banks and non-bank depositary institutions which fail to maintain the minimum reserves, including terminating their operations, prohibiting them from distributing their profits, paying dividends or increasing salaries and bonuses and imposing other penalties.

In the conduct of its monetary policy, the NBG is permitted to purchase and sell debt securities issued by the Ministry of Finance and its own securities on a spot and forward basis or under repurchase agreements in the open market. It is also authorised to be a lender of last resort to commercial banks for a period not exceeding three months and to impose credit and interest rate controls as a last resort to comply with monetary and foreign exchange policies.

Foreign Exchange, International Reserves and Exchange Controls

The NBG sets and regulates the exchange rate for the Lari against other foreign currencies, enforces foreign exchange controls, regulates foreign exchange operations in Georgia and sets limits on foreign exchange positions for banks and non-bank depositary institutions that are engaged in foreign exchange operations. It also owns, holds and manages official foreign exchange reserves.

Supervision and Licensing

The NBG is responsible for the supervision and licensing of banks, non-bank depositary institutions and currency exchange offices in Georgia, with the power to issue and revoke licences, carry out inspections, impose restrictions and sanctions and determine whether to place banks and non-bank depository institutions into temporary administration and/or liquidation.

Acting as Banker, Adviser and Fiscal Agent of the Government of Georgia

The NBG advises the President and Minister of Finance of Georgia on all matters that relate to the activities of the NBG, the preparation of the annual state budget and the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from government agencies and in such capacity receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to sell state bonds and issue certificates of deposit. It is also permitted to act as the fiscal agent of the Government and its agencies in the marketing and administration of Government debt securities. In addition, the NBG is authorised to issue money and grant loans to the Georgian Government to finance the budget deficit within the framework of the Law of Georgia on the State Budget, the limits set under the monetary and exchange policies approved annually by Parliament and the financial programme agreed with the IMF. Government lending is mainly spent on servicing foreign debt.

Operation of Clearing and Settlement Facility

The NBG is empowered to assist banks organise facilities for the clearing and settlement of interbank payments and may establish procedures and issue such regulations relating thereto as it deems appropriate to ensure the efficient operation of the payments system.

Regulation of Accounting and Reporting Rules

The NBG is responsible for setting accounting and reporting rules and procedures consistent with international standards for commercial banks and non-bank depositary institutions.

Reporting

Three months before the beginning of each fiscal year, the NBG submits a draft of its proposed monetary and exchange policies for the year to Parliament. If Parliament fails to determine the monetary and exchange policies before the beginning of the following fiscal year, the NBG operates in accordance with its draft proposals. Such monetary and foreign exchange policies encompass expected levels of inflation, amounts of foreign exchange reserves, the maximum amount of anticipated lending by the NBG to the Government, the mechanisms of monetary regulations to ensure these parameters, exchange rates and foreign currency regimes are complied with and proposed improvements to the regulatory framework and the monetary system.

Within three months of the end of its fiscal year, the NBG submits a statement on the implementation of monetary and foreign exchange policies Parliament for approval. If Parliament fails to approve this statement, it is required to issue recommendations to address any shortcomings.

Regulation of the Georgian Banking Sector

Under the Constitution of Georgia, Parliament adopts monetary and exchange rate legislation which is implemented by the NBG. The main laws regulating the Georgian banking sector are the NBG Law and the Banking Law. In addition, the NBG has the power to issue decrees on (i) monetary regulation instruments, (ii) banking supervision, (iii) the foreign exchange regime and (iv) 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 registration and licensing of banks and the regulation of banking activity by the NBG.

Licensing

A licence must be obtained from the NBG 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, drafts and cheques, certificates of deposit, securities, futures, options and swaps on debt instruments, interest rates, currencies, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing means of payment instruments and managing their circulation (including credit 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; and (x) 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 NBG 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 – NBG Decree No. 95 of 10 April 2001, as amended under Decree No. 75 of 25 March 2002, Decree No. 237 of 17 September 2002, Decree No. 299 of 23 December 2003, Decree No. 67 of 7 April 2004, Decree No. 200 of 20 July 2006, Decree No. 253 of 15 September 2006 and Decree No. 352 of 20 December 2006.

Mandatory Financial Ratios	NBG Maximum/Minimum	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 necessary to cover credit and market risks. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital adequacy ratio....	Regulatory Capital to Risk Weighted Assets must not be less than 12.0%.	The risk-weighted assets are calculated under a formula that takes into account the bank's capital, select categories of assets, reserves created for possible losses of those assets, credit risk on forward transactions, as well as risks relating to interest rates, securities markets and currencies, in each case separating the systemic and idiosyncratic factors.
Related party lending ratios		
Related party lending single insider ratio	No credit to an insider 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 not to exceed 25.0% of Regulatory Capital.	

Mandatory Financial Ratios	NBG Maximum/Minimum	Description
Lending ratios		
Lending ratio individual borrower.................................	No credit to an outsider 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 not to exceed 25.0% of Regulatory Capital.	
Large loans to customers........	Total large loans to customers and other liabilities not to exceed 200.0% of the Regulatory Capital. Large loans to customers and other liabilities are defined as loans to single or 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 more than 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 not less than 30.0% 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 to immediately cover a significant proportion of its liabilities should such liabilities become payable on demand.
Investments ratios		
Investments:equity	Total investments in the equity of third party 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 third parties by limiting such investments to a proportion of the charter capital.
Investments plus fixed assets:equity...........................	Total investments in the charter capital (including fixed assets) of third party legal persons not to exceed 70.0% of the difference between total assets and liabilities of the bank.	

Mandatory Financial Ratios	NBG Maximum/Minimum	Description
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 (*i.e.,* that represent on balance sheet 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 open exchange position is the value of foreign exchange account balances (i.e. that represent 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 NBG mandatory financial ratio requirements based on NBG calculation rules as of 31 December 2003, 2004 and 2005 and as of 30 November 2006.

Mandatory Financial Ratio	NBG Financial Ratio Requirement	As of 31 December			As of 30 November
		2003	2004	2005	2006
Tier I capital adequacy ratio	≥8.0%	12.1%	15.0%	11.1%	22.71%
Total capital adequacy ratio	≥12.0%	16.0%	8.9%	13.0%	27.96%
Related party lending single insider ratio....	≤5.0%	1.1%	2.6%	4.1%	1.73%
Related party lending all insiders ratio........	≤25.0%	6.7%	5.4%	13.7%	5.93%
Lending ratio individual borrower	≤15.0%	17.3%	19.7%	13.4%	5.65%
Lending ratio group of related borrowers....	≤25.0%	n/a	20.7%	7.8%	3.94%
Large loans to customers	≤200.0%	n/a	198.6%	64.3%	5.65%
Uncollateralised loans.................................	≤25.0%	n/a	7.9%	4.9%	5.28%
Average liquid assets: liabilities	≥30.0%	30.0%	43.0%	21.8%	30.35%
Investments: equity	≤50.0%	1.9%	31.7%	10.3%	7.81%
Investments plus fixed assets: equity	≤70.0%	n/a	77.3%	48.5%	22.00%
Balance sheet open exchange position	≤20.0%	n/a	n/a	n/a	9.60%
Cumulative open exchange position...........	≤20.0%	5.4%	2.11%	4.9%	7.31%

As shown in the table above, from time to time Bank of Georgia has breached certain mandatory financial ratios set by the NBG, in part due to its high rate of growth. Bank of Georgia received a one-year waiver from compliance with the NBG ratios until 20 February 2007, insofar as Bank of Georgia's ratios are affected by the Intellect Bank acquisition. While Bank of Georgia is currently in material compliance with all mandatory financial ratios of the NBG, no assurance can be given that inspections by regulatory authorities will not conclude retrospectively that Bank of Georgia has violated laws, decrees or regulations, and the Bank may be unable to refute any such allegations or prevent or remedy any such violations. See "Risks Related to the Bank's Business and Industry—Regulation of the Georgian Banking Industry".

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks. As discussed under "—History of the Georgian Banking Sector—Dollarisation of the Georgian Economy" above, the NBG has taken steps to stimulate Lari demand (including introducing differentiated reserve requirements for domestic and foreign currencies). As from September 2006, commercial banks are required to maintain mandatory minimum reserves at the NBG amounting to 13.0% of foreign currency funds and 4.0% of GEL funds. In addition, commercial banks are required to maintain average minimum reserves at the NBG amounting to 2.0% of GEL funds. Reserves should be reviewed and adjusted every ten days. The NBG may fine a bank that fails to comply with these reserve requirements and is authorised to suspend its officers' authority to sign, require that they be removed from their duties and (as a last resort) revoke the bank's licence.

In its Georgian Banking System Development Strategy for 2006-2009, the NBG has undertaken to pursue a policy of reducing minimal reserve requirements and in particular, gradually bring minimum reserve requirements for GEL deposits in line with those for foreign currencies. In order to support the development of securities emissions by commercial banks in Georgia, the NBG has also undertaken to exclude the proceeds of long-term securities issuances (with over a two year maturity) 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 priority established by law.

Provisioning

Pursuant to the Regulation on Asset Classification and the Creation and Use of Reserves for Losses by Commercial Banks, approved under Decree 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 which 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 have been delinquent for 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 of 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 principle.

Reporting Requirements

All banks are subject to inspection by the NBG. 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 NBG 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 1999 OECD Corporate Governance Principles.

Regulation of Commercial Bank Employees

Pursuant to NBG Order No. 234 dated 16 September 2002, as amended by Order No. 212 dated 30 September 2004 and Order No. 241 dated 6 September 2006, 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, branch 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, audit or accounting;
- each member of the bank's management board, branch director and deputy director of a branch or similar structural unit 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 chief accountant and deputy chief accountant of the bank or a branch must have at least three years' experience working in the banking and finance sectors;
- a person to be appointed to the office of a manager or a senior personnel may not be a member of the supervisory council 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 of any other enterprise;
- there should not be a request from the NBG to the Supervisory Council and 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 each 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.

As an additional requirement, no one who has (a) been involved in any operation or transaction that has resulted in substantial loss for a commercial bank or a non-bank depositary institution or its insolvency or bankruptcy, (b) engaged in "abusive practice" when acting as an administrator of a bank or a non-bank depositary institution, (c) served as an administrator of a commercial bank or a non-bank depositary institution which has become insolvent as the result of his or her activities, (d) failed to fulfil any financial obligation to a bank or a non-bank depositary institution or (e) been declared bankrupt, or has been convicted of an economic crime which has not been set aside, or is subject to any restrictions under current legislation, may be a manager or senior officer of a bank.

Regulation of Commercial Bank Shareholders and Supervisory Board Members

Pursuant to the Banking Law, owners of significant shareholding (defined as 10.0% or more of either the authorised share capital or of the fully paid-up issued share capital) and the members of the Supervisory Board of a Georgian bank will need to meet compliance criteria similar to the additional requirements described in (a) to (e) in the paragraph above.

It is prohibited to purchase or sell a significant shareholding in a Georgian bank without the prior written approval of the NBG. The NBG approves the sale or purchase of a significant shareholding in a bank within one month of the submission of the request. Any purchase or sale of a significant shareholding without the relevant NBG approval is deemed to be null and void. If the owner of significant shareholding fails to meet the compliance criteria, it will lose voting rights and the right to transfer the shares to other persons for temporary management.

Regulatory Capital

The current minimum regulatory capital for commercial banks as established by the NBG Order No. 144 dated 23 May 2006 is GEL 12 million (U.S.$6.9 million). Under Georgian law, a commercial bank's "regulatory capital" comprises the sum of its Tier I and Tier II capital, as defined in NBG order no. 237 dated 17 September 2002. Any new entity applying for a banking licence must comply with the minimum regulatory capital requirement in full. Licenced commercial banks and branches of foreign banks already in operation as of 23 May 2006 must have a regulatory capital of at least GEL 7.8 million (U.S.$4.5 million) until 31 December 2006, GEL 9.2 million (U.S.$5.3 million) from 31 December 2006 and will be required to comply in full with the above minimum regulatory capital requirement by 30 June 2007.

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 takeover by medium or large banks. The NBG is responsible for implementing antimonopoly policy with respect to mergers and takeovers in the banking sector. The NBG 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 issue orders setting out further preventative measures and reporting requirements that should be complied with. The FMS operates as an independent body within 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, financial institutions, including all banks, are obliged to report all transactions (or any group of transactions, where one transaction has been broken down into several component transactions to evade application of the law) with a value in excess of GEL 30,000 (or foreign currency equivalent) and/or all suspicious transactions, irrespective of value, to the FMS. 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 General Prosecutor's Office of Georgia and to 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 the Georgian 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 development strategy for the Georgian banking system for 2006-2009, the NBG proposes to introduce a mandatory KYC policy.

The NBG 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 NBG is entitled to cancel and 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 NBG 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 which are not paid in accordance with the second category above;
- *fourth*: all other deposits;
- *fifth*: all other claims against the bank; and
- *sixth*: any necessary and reasonable costs incurred by the NBG.

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. The NBG plans to introduce a deposit insurance scheme in 2007 in order to enhance public trust in the Georgian banking sector (see "— Reform of the Banking Sector" below). However, 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 has set out a number of objectives which it considers to be important to the further development of the banking system in Georgia. Some of the key targets for 2007 include:

- the development of a mandatory deposit insurance system. The aim of this system is to insure all deposits in the amount of GEL 3,000-5,000 (or the foreign currency equivalent);

- the creation of a credit history agency;
- the amendment of the Banking Law to improve compliance criteria for significant shareholders in Georgian banks (holding 10% or more);
- application of prudential norms in a manner consistent with Basel Standards;
- improvement of the principles of capital adequacy calculation; and
- amendment of legislation to develop financial and capital markets.

THE ISSUER

General

BG Finance B.V. was incorporated as a private company with limited liability (*"besloten vennootschap met beperkte aansprakelijkheid",* or B.V.) under and subject to, the laws of The Netherlands on the 15th day of November 2006 for an unlimited duration. It is registered with the Trade Register of the Chamber of Commerce for Amsterdam, The Netherlands under number 34260045. The Issuer has been established as a special purpose vehicle for the purpose of, among others, making loans to Bank of Georgia and issuing notes and has no subsidiaries.

The Issuer is wholly-owned by Stichting Administratiekantoor BG Finance, established as a foundation (*"stichting"*) on 2 November 2006 under, and subject to, the laws of The Netherlands. It is registered with the Trade Register of the Chamber of Commerce for Amsterdam, The Netherlands under number 34259252.

The objects of the Issuer, as set forth in Article 2 of its Articles Association, are to invest and place funds acquired by the Issuer in, *inter alia*, interests in loans, bonds, debt instruments, shares, warrants and other similar securities, as well as in the other derivatives, to purchase bonds, loans and other debt related instruments, to sell or otherwise dispose of the whole or any part of its property, to lend and to raise funds, including (but not limited to) the making of loans and the issuance of bonds and other debt related instruments, to grant security over its own assets by way of mortgage, charge, pledge, lien, standard security or other, to limit financial risks and risks in respect of fluctuations in interest rates by, *inter alia*, entering into derivate agreements such as option agreements or swap agreements, to enter into other agreements in connection with the aforementioned and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

The registered office of the Issuer is at Teleportboulevard 140, 1043 EJ Amsterdam, The Netherlands and its telephone number is +31 20 5405800.

The issue of the Notes and the approval of the Loan Agreement by the Issuer were duly authorised by a resolution of the management board of the Issuer dated 2 February 2007.

Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as of the date of this Prospectus, as adjusted to give effect to the issue of the Notes:

	(Amounts in U.S.$)
Shareholder's Equity	
Authorised, issued and outstanding Capital Stock of €18,000	23,256[(1)]
Indebtedness	
9.0% Loan Participation Notes due 2012	200,000,000
Total Indebtedness	200,000,000
Total Capitalisation and Indebtedness	**200,023,256**

Note:

(1) Converted at the exchange rate of €1.00 to U.S.$1.292 reported on 12 January 2007.

Business

So long as any of the Notes remain outstanding, the Issuer will be subject to the restrictions set out in the Terms and Conditions of the Notes and the Trust Deed under which it has agreed to conduct no business other than in connection with the issue and servicing of the Notes and the entry into and performance of the Loan Agreement.

The Issuer has not carried out any business since its incorporation.

Corporate Administration and Directors

ING Management (Nederland) B.V., a private company with limited liability (*"besloten vennootschap met beperkte aansprakelijkheid"*, or B.V.) incorporated under the laws of The Netherlands has been appointed as the managing director of the Issuer and is responsible for the management and administration of the Issuer. ING Management (Nederland) B.V., specialises in providing trustee services and the incorporation and management of trusts, funds, foundations and companies for institutions, multinationals and private individuals. The director of ING Management (Nederland) B.V. is Mr. Hendrik Michiel Carel Maria Schölvinck. The managing director of the Issuer has its corporate seat and the director of ING Management (Nederland) B.V. has its business address in Amsterdam, The Netherlands and their place of business is at Teleportboulevard 140, 1043 EJ Amsterdam, The Netherlands.

There are no potential conflicts of interest between any duties of the sole managing director of the Issuer towards the Issuer and its private interests and/or duties and there are no potential conflicts of interest between any duties of the director of ING Management (Nederland) B.V. towards either the Issuer or ING Management (Nederland) B.V. and his private interests and/or duties. The director of ING Management (Nederland) B.V. performs no principal activities outside ING Management (Nederland) B.V. which are significant with respect to either ING Management (Nederland) B.V. or the Issuer.

The sole managing director of Stichting Administratiekantoor BG Finance is ING Management (Nederland) B.V.

Financial Statements

The Issuer has not published financial statements.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement entered into between Bank of Georgia and the Issuer, except the schedules thereto.

THIS AGREEMENT is made on 6 February 2007

BETWEEN:

(1) **JOINT STOCK COMPANY BANK OF GEORGIA**, an open joint stock company incorporated under the laws of Georgia, located at 3 Pushkin Street, Tbilisi 0105, Georgia, as borrower (the "**Borrower**"); and

(2) **BG FINANCE B.V.**, a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) organised under the laws of The Netherlands whose registered office is at 140 Teleportboulevard, Amsterdam, 1043 EJ, as lender (the "**Lender**").

WHEREAS:

The Lender has at the request of the Borrower agreed to make available to the Borrower a credit facility in the amount of U.S.$200,000,000 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, the following expressions have the following meanings:

"**Account**" means the account in the name of the Lender at The Bank of New York, account number 197158;

"**Additional Amounts**" has the meaning given to it in Clause 8.1 (*Additional Amounts*);

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a);

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the paying agency agreement relating to the Funding Instruments dated 8 February 2007 between the Lender, BNY Corporate Trustee Services Limited, as trustee, The Bank of New York, as principal paying agent, and The Bank of New York (Luxembourg), S.A., as registrar;

"**Asset Sale**" means the sale, conveyance, transfer or lease (whether in a single transaction or in a series of related transactions) of (a) all or substantially all of the assets of the Borrower or any of its Subsidiaries to any Person other than a New Holding Company, or (b) all or substantially all of the Capital Stock of any of the Borrower's Subsidiaries to any Person other than a New Holding Company;

"**Auditors**" means Ernst & Young LLC or any internationally recognised firm of accountants approved by the Lender;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 hereto and, in the case of the Lender, a Person who is a duly authorised officer of the Lender, at the relevant time;

"**BIS Guidelines**" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the July 1988 text of the Basle Capital Accord, published by the Basle Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency;

"**Borrowing Date**" means 8 February 2007 or such later date as may be agreed by the parties to this Agreement;

"**Business Day**" means a day on which banks are open for general business (including dealings in foreign currencies) in New York and London;

"Capital" has the meaning given to it in the BIS Guidelines.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

a "**Change of Control**" occurs if any Person or Persons acting in concert (as defined in The City Code on Takeovers and Mergers published by the UK Panel on Takeovers and Mergers) acquire or acquires more than 50.1 per cent. of the Voting Stock of the Borrower but shall not include a Permitted Reorganisation;

"**Change of Law**" means any of: (a) the enactment or introduction of any new law; (b) the variation, amendment or repeal of an existing or new law; (c) any ruling on or interpretation or application by a competent authority of any existing or new law; and (d) the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or Agency or any Taxing Authority or fiscal or other competent authority or Agency thereof; which, in each case, occurs after the date hereof. For this purpose the term "**law**" means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks, other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

(a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and

(b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law);

"**Double Tax Treaty**" means the Treaty between the Government of Georgia and the Government of The Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, signed on 21 March 2002 and in force from 21 February 2003;

"**Exposure**" means:

(a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to the Borrower, whether direct or contingent, by a counterparty, or, in the case of a Single Party, by a group of counterparties, in respect of money borrowed, equity or debt raised, Guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of the Borrower's corporate and retail lending business; less

(b) any such amount which is fully secured by rights of off-set against Liquid Assets in equivalent amounts and comparable maturities placed with the Borrower;

"**Event of Default**" means any of those circumstances described as such in Clause 15 (*Events of Default*);

"**Facility Fee**" has the meaning given to it in Clause 3.2 (*Facility Fee*);

"**Fair Market Value**" of a transaction means the value that would be obtained in an arm's-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A report of the Auditors of the Borrower of the Fair Market Value of a transaction may be relied upon by the Trustee and/or the Lender without further enquiry or evidence and, if relied upon by the Trustee and/or the Lender, shall be conclusive and binding on all parties;

"**Fees and Indemnity Letter**" means the letter agreement dated 6 February 2007 between, *inter alios*, the parties to the Agency Agreement and the Trust Deed setting out the fees, expenses and certain other amounts payable by the Lender and/or the Borrower in connection with the Issue Documents;

"**Funding Instruments**" means the U.S.$200,000,000 9.0 per cent. loan participation notes due 2012 proposed to be issued by the Lender pursuant to the Issue Documents on or about 8 February 2007 for the purpose of funding the Loan;

"**Georgia**" means the country of Georgia (in the Caucasus region) and any province or political sub-division thereof;

"**Group**" means the Borrower and its Subsidiaries, from time to time, taken as a whole or, following the creation of any New Holding Company, all New Holding Companies and their Subsidiaries, from time to time, taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors;

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for, *provided that* any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary of another Person will be deemed to be incurred by the other Person or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such other Person or is so merged into such Subsidiary;

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services;

(e) all capitalised lease obligations of such Person;

(f) all indebtedness of other Persons secured by Security Interests granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest annual financial statements (calculated in accordance with IFRS) of the Person granting the Security Interest) of such Person, whether or not such indebtedness is assumed by such Person;

(g) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;

(h) any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable;

(i) any amount raised by acceptance under any acceptance credit facility;

(j) to the extent not otherwise included in the foregoing, net obligations under any currency or interest rate hedging agreements; and

(k) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing,

and the amount of indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

"**Indemnity Amounts**" has the meaning given to it in Clause 8.3 (*Indemnity Amounts*);

"**Independent Appraiser**" means an investment banking firm or third party expert in the matter to be determined of international standing selected by the Borrower and approved by the Trustee, *provided that* such firm or third party appraiser is not an Affiliate of the Borrower;

"**Interest Payment Date**" means 8 February and 8 August in each year in which the Loan remains outstanding or if any such day is not a Business Day, the next succeeding Business Day, commencing on 8 August 2007, with the last Interest Payment Date falling on the Repayment Date;

"**Interest Period**" means any of those periods mentioned in Clause 4 (*Interest Periods*);

“**Issue Documents**” means this Agreement, the Trust Deed, the Funding Instruments, the Agency Agreement and the Fees and Indemnity Letter;

“**Lead Manager**” means Merrill Lynch International;

“**Liquid Assets**” means the aggregate (as of the relevant date for calculation) of the Borrower’s cash, demand and overnight deposits and other deposits with a maturity of not more than 30 calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by Georgia, or any province, subdivision or Agency thereof and claims against the NBG with a final maturity of less than one year;

“**Loan**” means the loan made (or to be made) by the Lender hereunder in an amount of U.S.$200,000,000 or, as the context may require, the amount thereof from time to time outstanding;

“**Material Adverse Effect**” means a material adverse change in, or material adverse effect on, (a) the business, properties, condition (financial or otherwise), results of operations or prospects of the Borrower and/or the Group, (b) the Borrower’s ability to perform its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

“**Material Subsidiary**” means any Subsidiary of the Borrower or a New Holding Company:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 5 per cent. of the consolidated revenues of the Group or more than 5 per cent. of the consolidated net income of the Group; or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 5 per cent. of the consolidated assets of the Group, each as set forth in the most recent available consolidated financial statements of the Group for such IFRS Fiscal Period (with effect from the date of issuance of such statements); or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

“**Merger Event**” means the consolidation of the Borrower or any of its Subsidiaries with or into another Person, the merger of the Borrower or any of its Subsidiaries with or into another Person or the amalgamation of the Borrower or any of its Subsidiaries with or into another Person or the reorganisation or restructuring of the Group, in each case other than pursuant to a Permitted Reorganisation;

“**NBG**” means the National Bank of Georgia;

“**Net Asset Value**” means the amount by which the total value of the Group’s consolidated assets exceeds the amount of its total consolidated liabilities, as determined by reference to the consolidated balance sheet of the Borrower prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

“**New Holding Company**” has the meaning given to it in the definition of “Permitted Reorganisation”;

“**Officers’ Certificate**” means a certificate signed on behalf of the Borrower by two members of the management board of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower and in the form set out in Schedule 2 hereto;

“**Permitted Reorganisation**” means any reorganisation of any part of the Group whereby the ownership interests in the Subsidiaries of the Borrower which are not retained by the Borrower are transferred to a Person (a “**New Holding Company**”) or in which the Borrower’s shareholders transfer or contribute, directly or indirectly, the Borrower’s Capital Stock to a New Holding Company which owns, directly or indirectly, all of the Borrower's Capital Stock and which, in any such case, has entered into a Guarantee of the Borrower's obligations under this Agreement in substantially the form attached as Schedule 5 hereto and such Guarantee has become effective in accordance with its terms at the time of such transfer;

"**Permitted Security Interests**" means:

(a) Security Interests in existence on the date of this Agreement;

(b) Security Interests granted in favour of the Borrower or a New Holding Company by any of their respective Subsidiaries;

(c) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Borrower or a New Holding Company or becomes a Subsidiary of the Borrower or a New Holding Company, *provided that* such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Borrower or any Subsidiary of the Borrower or the New Holding Company, as the case may be (other than those of the Person acquired and its Subsidiaries (if any));

(d) Security Interests already existing on assets or property acquired or to be acquired by the Borrower or a New Holding Company or a Subsidiary of the Borrower or a Subsidiary of a New Holding Company, *provided that* such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(e) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), *provided that* the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(f) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking business for the purpose of netting debit and credit balances;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues subject to such Security Interest when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 14.6 (*Disposals*), does not, at any such time, exceed 25 per cent. of the Borrower's loans and advances to customers, as determined at any time by reference to the consolidated balance sheet of the Borrower prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

(h) any Security Interest upon, or with respect to, any member of the Group's present or future lease contracts to secure Indebtedness owed by a member of the Group to Overseas Private Investment Corporation or World Business Capital, *provided that* the aggregate principal amount of Indebtedness secured by such Security Interests does not at any time exceed U.S.$10,000,000;

(i) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(j) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(k) any Security Interests arising by operation of law and in the normal course of business; and

(l) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (k), (inclusive), *provided that* the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed the greater of U.S.$10,000,000 or 1 per cent. of the consolidated total assets of the Borrower, as determined by reference to the consolidated balance sheet of the Borrower prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event which would become (with the passage of time, the giving of notice, the making of a determination and/or the fulfilment of any other requirement under this Agreement) an Event of Default;

"**Principal Paying and Transfer Agent**" means the party designated from time to time as Principal Paying and Transfer Agent under the Issue Documents;

"**Prospectus**" means the prospectus dated 6 February 2007 related to the offering of the Funding Instruments;

"**Put Event**" means the occurrence of a Rating Downgrade within 90 days (which period shall be extended if and for so long as the long-term foreign currency debt or short-term foreign currency debt rating of the Borrower is under publicly announced consideration for a possible downgrade by any Rating Agency) after the date of the occurrence of any Asset Sale, Change of Control or Merger Event, where such Rating Downgrade is primarily a result of such Asset Sale, Change of Control or Merger Event, as specified by the relevant Rating Agency;

"**Put Event Payment Date**" means, in respect of a Put Event, the date specified by or on behalf of the Lender in the Put Redemption Notice on which any part of the Loan is to be prepaid in accordance with Clause 7.3 (*Prepayment upon a Put Event*), which date shall be the fifteenth Business Day immediately following the last day of the Put Period;

"**Put Period**" means the period of 30 days after notice is given by the Trustee to the holders of the Funding Instruments in accordance with Condition 14 (*Notices*) of the Funding Instruments of the occurrence of a Put Event;

"**Put Redemption Notice**" means, in respect of a Put Event, a notice given by or on behalf of the Lender (after receipt by the Trustee and the Lender of written confirmation from the Principal Paying and Transfer Agent of the Put Redemption Amount) to the Borrower specifying (i) the aggregate principal amount of Funding Instruments which are to be redeemed (the "**Put Redemption Amount**") as a result of the relevant Put Event; and (ii) the Put Event Payment Date;

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Georgia under which the payment of interest by Georgian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Georgian income tax;

"**Rate of Interest**" means 9.0 per cent. per annum;

"**Rating Agency**" means Moody's Investors Service ("**Moody's**") and its successors, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("**Standard & Poor's**") and its successors, or Fitch Ratings ("**Fitch**") and its successors;

"**Rating Category**" means (a) with respect to Fitch or Standard & Poor's, any of the following categories (any of which may or may not include a "+" or "-" qualification, the removal or addition of which shall constitute a change in the relevant category): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories) and (b) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3" qualification, the removal or addition of which shall constitute a change in the relevant category): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories);

"**Rating Downgrade**" means:

(a) the withdrawal by two or more Rating Agencies of any of the long-term foreign currency debt or short-term foreign currency debt ratings of the Borrower or the Funding Instruments; or

(b) the reduction by two or more Rating Agencies by one or more Rating Categories of any of the long-term foreign currency debt or short-term foreign currency debt ratings of the Borrower or the Funding Instruments,

provided that in relation to (a) or (b) above, if prior to the announcement of an Asset Sale or a Change of Control or a Merger Event, any rating of the Borrower or the Funding Instruments has been reduced by one or more Rating Categories and the reduction is stated by the relevant Rating Agency to result solely from the factors underlying the withdrawal or reduction of the rating of any debt of Georgia, then, for the purposes of determining whether or not a Put Event has occurred, the ratings of the Borrower and the Funding Instruments in existence at the time of the announcement of such Asset Sale, Change of Control or Merger Event shall be substituted, if different, for the ratings set out in (b) above;

"**Relevant Event**" has the meaning given to it in the Funding Instruments;

"**Relevant Guarantee**" means a Guarantee entered into by a New Holding Company in connection with a Permitted Reorganisation;

"**Repayment Date**" means 8 February 2012 or, if such day is not a Business Day, the next succeeding Business Day;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Reserved Rights**" has the meaning given to it in the Trust Deed;

"**Risk Weighted Assets**" means the aggregate of the Group's consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines;

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Single Party**" means with respect to any counterparty, such counterparty and all Affiliates of such counterparty;

"**Stock Exchange**" means the London Stock Exchange;

"**Subscription Agreement**" means the subscription agreement relating to the Funding Instruments dated 6 February 2007;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) as to whom the first Person owns directly or indirectly more than 50 per cent. of the Capital Stock, Voting Stock or other right of ownership;

"**Tax**" means any tax, levy, duty, impost or other charge or withholding of a similar nature, no matter where arising (including interest and penalties thereon and additions thereto) and no matter how levied or determined;

"**Taxing Authority**" has the meaning given to it in Clause 8.1 (*Additional Amounts*);

"**Tier 1 Capital**" means the Tier 1 capital of the Borrower, as such term is defined in the BIS Guidelines;

"**Trust Deed**" means the trust deed relating to the Funding Instruments dated 8 February 2007;

"**Trustee**" means the party designated from time to time as trustee under the Trust Deed; and

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 **Interpretation**

Any reference in this Agreement to:

the "**Borrower**" or the "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests;

"**control**" when used with respect to any Person means the power to direct the management and policies of such Person or to control the composition of such Person's management board or board of directors, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is Lari and the second currency is U.S. dollars (or vice versa), by the NBG at 3.00 p.m. (Tbilisi time) on such date for the purchase of the first currency with the second currency;

a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month, *provided that*, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day and if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "**months**" shall be construed accordingly);

the "**rights**" of the Lender shall be read, following execution of the Trust Deed, as references to rights of the Trustee, except for those rights of the Lender which are Reserved Rights; and

"**VAT**" means value added tax, including any similar tax which may be imposed in place thereof from time to time.

1.3 **Currency References**

"**U.S.$**" and "**U.S. dollars**" denote the lawful currency of the United States of America and "**Lari**" denotes the lawful currency of Georgia.

1.4 **Legislation**

Any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.5 **Headings**

Clause and Schedule headings are for ease of reference only and shall not affect the construction of this Agreement.

1.6 **Amended Documents**

Save where the contrary is indicated, any reference in this Agreement to any Issue Document or any other agreement or document shall be construed as a reference to such Issue Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

1.7 **Singular and Plural**

Words denoting the singular shall include the plural and vice versa.

1.8 **Clauses and Schedules**

Any reference in this Agreement to a Clause or a Schedule is, unless otherwise stated, to a Clause hereof or a Schedule hereto.

2. THE LOAN

2.1 **Grant of the Credit Facility**

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term credit facility in the amount of U.S.$200,000,000 and the Borrower hereby agrees to borrow such amount from the Lender on the Borrowing Date, subject as provided herein.

2.2 **Purpose and Application**

The Loan is intended to be used by the Borrower to fund the growth of the Group, including the expansion of its lending activities and to pursue strategic acquisitions, but this shall not affect the obligations of the Borrower in any way and the Lender shall not be obliged to concern itself with such application.

3. AVAILABILITY OF THE LOAN

3.1 **Draw-down**

Subject to the terms and conditions set out herein, the Loan will be available by way of a single draw-down which will be made by the Lender to the Borrower on the Borrowing Date by payment of the proceeds of the Loan to the Borrower's account with JP Morgan Chase Bank, New York, USA, swift code CHASUS33, account number 400213605, if:

(a) the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 hereto (*Conditions Precedent Documents)* and that each is in form and substance reasonably satisfactory to the Lender, save as the Lender may otherwise agree;

(b) (i) no event has occurred or circumstance has arisen which would constitute an Event of Default or a Potential Event of Default; (ii) the representations and warranties set out in Clause 11 (*Representations and Warranties of the Borrower*) are true on the Borrowing Date with respect to the facts and circumstances then subsisting and (iii) the Borrower is in full compliance with all its obligations under this Agreement and the Issue Documents; and

(c) the Lender has received the Facility Fee as contemplated by Clause 3.2 (*Facility Fee*).

3.2 **Facility Fee**

In consideration of the Lender making the Loan to the Borrower, the Borrower hereby agrees that it shall pay to the Lender a fee in connnection with the arrangement of the Loan (the "**Facility Fee**") in the amount of U.S.$2,650,000. The Facility Fee will be paid by way of a deduction by the Lender from the amount of the Loan on the Borrowing Date.

4. INTEREST PERIODS

The Borrower will pay interest semi-annually in U.S. dollars to the Lender on the outstanding principal amount of the Loan from time to time at the Rate of Interest, calculated in accordance with the provisions of this Agreement (including, without limitation, Clause 5.2 (*Calculation of Interest*)). Interest shall accrue on the Loan from and including the Borrowing Date to but excluding the Repayment Date. Each period beginning on (and including) the Borrowing Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date or the Repayment Date is herein called an "**Interest Period**". Subject as provided in Clause 5.2 (*Calculation of Interest*), interest on the Loan will cease to accrue on the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before and after any judgement) at the Rate of Interest up to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made.

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payments of Interest

The Borrower shall pay interest semi-annually in arrear in respect of each Interest Period calculated in accordance with Clause 5.2 (*Calculation of Interest*) one Business Day prior to the Interest Payment Date on which such Interest Period ends.

5.2 Calculation of Interest

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of the Loan for any period other than an Interest Period shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5.3 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the last day of the relevant Interest Period is the same as the amount of the Loan outstanding on the day of the calculation.

6. REPAYMENT

Except as otherwise provided herein, not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date, the Borrower shall repay in full the outstanding principal amount of the Loan together with, to the extent not already paid in accordance with Clause 5.1 (*Payments of Interest*), all interest payable in respect of the last Interest Period (calculated to the Repayment Date) and all other amounts payable hereunder (calculated as aforesaid).

7. PREPAYMENT

7.1 Prepayment for Tax Reasons and Change in Circumstances

If, as a result of the application of or any amendment to or change (including a change in the application or interpretation thereof) in the Double Tax Treaty (or in the double taxation treaty between Georgia and any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for Tax purposes) or the laws or regulations of the United Kingdom, The Netherlands or Georgia (or any Qualifying Jurisdiction where the Lender or any successor thereto is resident for Tax purposes) or of any political sub-division thereof or any authority therein having power to tax or any Agency therein, the Borrower would thereby be required to pay Additional Amounts in respect of Tax as provided in Clause 8.1 (*Additional Amounts*) or Indemnity Amounts as provided in Clause 8.3 (*Indemnity Amounts*) or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*) or if, after a Relevant Event, the Borrower is or would be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 (*Additional Amounts*) as a result of such payments being made to any person other than the Lender to whom the benefit of the Double Tax Treaty is unavailable and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' written notice to the Lender and the Trustee specifying the date of payment and including an Officers' Certificate to the effect that the Borrower would be required to pay such Additional

Amounts, Indemnity Amounts or additional amounts, supported (where the certification relates to Tax matters) by an opinion of an independent Tax adviser of recognised standing in the relevant Tax jurisdiction, prepay the Loan in whole (but not in part) together with any Additional Amounts then payable under Clause 8.1 (*Additional Amounts*), Indemnity Amounts payable under Clause 8.3 (*Indemnity Amounts*), additional amounts payable pursuant to Clause 10 (*Changes in Circumstances*) and accrued interest (for the period to but excluding the date of repayment). Any such notice of prepayment given by the Borrower shall be irrevocable and shall oblige the Borrower to make such prepayment on such date. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts, Indemnity Amounts or additional amounts, as the case may be.

7.2 **Prepayment for Illegality**

If, at any time, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Lender to make, fund or allow all or part of the Funding Instruments or the Loan to remain outstanding or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then the Lender shall deliver to the Borrower and the Trustee a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

(a) if the Loan has not been made, the Lender shall not thereafter be obliged to make the Loan; and

(b) if the Loan is then outstanding, the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such Illegality and if such a basis has not been determined within 30 days and the Lender so requires (as notified in writing to the Borrower), the Borrower shall, on the latest date permitted by the relevant law or on such earlier day as the Borrower elects (as notified in writing to the Lender and the Trustee not less than 30 days prior to the date of repayment), prepay (without penalty or premium) the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest (for the period to but excluding the date of repayment) thereon and all other amounts owing to the Lender hereunder.

7.3 **Prepayment upon a Put Event**

(a) Promptly, and in any event within five calendar days after a Put Event, the Borrower shall deliver to the Lender, the Principal Paying and Transfer Agent and the Trustee a written notice substantially in the form of Schedule 4 (*Form of Put Event Notice*) (the "**Put Event Notice**") hereto signed on behalf of the Borrower by two members of the management board of the Borrower, which notice shall be irrevocable, stating:

(i) that a Put Event has occurred; and

(ii) the circumstances and relevant facts giving rise to such Put Event.

(b) Whether or not a Put Event Notice has been delivered by the Borrower as contemplated in Clause 7.3(a) at all times following a Put Event the Lender (or the Trustee on its behalf) shall have the right to deliver a Put Redemption Notice to the Borrower requiring prepayment of the Loan. The Lender shall be entitled to rely on any notice received from the Principal Paying and Transfer Agent in relation to the calculation of the Put Redemption Amount. The Lender shall notify the Borrower, no later than five calendar days after receipt of notice thereof from the Principal Paying and Transfer Agent of the amount of the Put Redemption Amount. If no such notice is received then the Lender shall be entitled to determine the Put Redemption Amount itself. Upon receipt of such a Put Redemption Notice the Borrower shall prepay (without penalty or premium) an amount equal to the Put Redemption Amount specified in the Put Redemption Notice, together with accrued interest (if any) on such principal amount, up to (but excluding) the Put Event Payment Date, and all other amounts owing to the Lender hereunder, not later than 10.00 a.m. (New York City time) on the Business Day prior to the Put Event Payment Date.

7.4 **Costs of Prepayment**

Simultaneous with any prepayment and pursuant to any of the provisions of this Clause 7, the Borrower shall pay all accrued interest (calculated up to (but excluding) the date of prepayment) and all other amounts owing or payable to the Lender hereunder. The Borrower shall indemnify the Lender on written demand against any administrative costs and legal expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7.

7.5 **No Other Repayments and No Reborrowing**

The Borrower shall not repay the whole or any part of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid under this Agreement may be reborrowed.

7.6 **Purchase of Funding Instruments**

The Borrower or any of its Subsidiaries may purchase Funding Instruments at any time. Any such Funding Instruments so purchased may be delivered by the Borrower to the Lender for cancellation (*provided that*, in the case of delivery of Funding Instruments for cancellation, the aggregate principal amount of such Funding Instruments is not less than U.S.$1,000,000) and, against such surrender and cancellation, the Lender shall credit the Borrower with the prepayment of an amount of the Loan equal to the principal amount of such surrendered and cancelled Funding Instruments together with accrued interest (if any) on such amount of the Loan.

8. TAXES

8.1 **Additional Amounts**

(a) All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim, free and clear of and without deduction for or on account of any present or future Tax imposed by any taxing authority of or in, or having authority to tax in, Georgia, The Netherlands or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes (each a "**Taxing Authority**"), unless the Borrower is required by applicable law to make such payment subject to the deduction or withholding of Tax. In the event that the Borrower is required to make any such payment subject to deduction or withholding of Tax, then the Borrower shall, on the due date for such payment, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives a net amount in U.S. dollars which, following the relevant deduction or withholding on account of Tax, shall be not less than the full amount which it would have received had the payment not been subject to deduction or withholding on account of Tax and shall promptly deliver to the Lender and the Trustee evidence satisfactory to the Lender and the Trustee of such deduction or withholding of Tax and the accounting therefor to the relevant Taxing Authority.

(b) At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obliged to pay Additional Amounts with respect to such payment, then the Borrower will deliver to the Lender and the Trustee an Officers'

Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.

The foregoing provisions shall apply, modified as necessary, to any Tax imposed or levied by any Taxing Authority in any jurisdiction in which any successor obligor to the Borrower is organised.

8.2 **Double Tax Treaty Relief**

The Lender and the Borrower shall make reasonable and timely efforts to co-operate and assist each other in obtaining relief, in so far as such relief is available, under the Double Tax Treaty from withholding of Georgian Tax. In particular, the Borrower and Lender will inform each other, in a reasonable and timely manner, on the status of the procedures and the steps necessary to be taken in this regard. The Borrower shall assist the Lender in ensuring that all payments made under this Agreement are exempt from deduction or withholding of Georgian Taxes. If the Lender pays any amount in respect of Georgian Taxes, penalties or interest, the Borrower shall reimburse the Lender in U.S. dollars for such payment on demand. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.

8.3 **Indemnity Amounts**

Without prejudice to or duplication of the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that:

(a) it is obliged to make any deduction or withholding for or on account of any Tax (other than Tax assessed on the Lender by reference to its overall net income) from any payment which the Lender is obliged to make under or in respect of any Issue Document, then the Borrower shall pay to the Lender two Business Days prior to the date on which payment is due under this Agreement such additional amounts as are equal to the additional payments which the Lender would be required to make under the terms of any Issue Document (assuming in each case that an equivalent amount has been received from the Borrower) in order that the net amount received by each relevant recipient party under any Issue Document is equal to the amount which such party would have received had no such withholding or deduction been required to be made; and/or

(b) it is required to pay any Tax imposed by any Taxing Authority (other than Tax assessed on the Lender by reference to its overall net income) in relation to this Agreement or any other Issue Document (or any sum received under or in connection with any of the foregoing) or if any liability in respect of any Tax is at any time asserted, imposed, levied or assessed against the Lender, then the Borrower shall, as soon as reasonably practicable following, and in any event within 30 calendar days of, a written demand made by the Lender, indemnify the Lender in relation to such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 8.3 are collectively referred to as "**Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deduction of Tax with respect to the Loan, which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

8.4 **Tax Claims**

If the Lender intends to make a claim pursuant to Clause 8.3 (*Indemnity Amounts*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make the relevant withholding, deduction or payment, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

8.5 **Tax Credits and Tax Refunds**

(a) If a payment is made under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted a credit against, a relief or remission for or a repayment of, any Tax, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith) determines that such credit, relief, remission or repayment is in respect of or calculated by reference to the corresponding deduction, withholding, liability, expense, loss or payment giving rise to such payment by the Borrower, then the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction, withholding, liability, expense, loss or payment, *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of any such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its Tax affairs for its Tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and *further provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it, after the payment, in a worse after-Tax position than it would have been in had the payment not been required under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*). Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 or Clause 8.7 (*Delivery of Forms*) shall interfere with the right of the Lender to arrange its Tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

(b) If as a result of a failure to obtain relief from deduction or withholding of any Georgian Tax imposed by the Georgian Taxing Authority, (i) Georgian Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an Additional Amount is paid by the Borrower to the Lender in respect of such deduction or withholding; and (ii) following the deduction or withholding and the payment of any applicable Additional Amounts, the Borrower applies on behalf of the Lender (but under the supervision of the Lender) to the Georgian Taxing Authority for a Georgian Tax refund and such Georgian Tax refund is credited by the Georgian Taxing Authority to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such Georgian Tax refund and promptly transfer the entire amount of the Georgian Tax refund to the Borrower (to an account specified by the Borrower), if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it, after the payment (and after it has deducted all of its related costs and expenses from the relevant amount), in no worse an after-Tax position than it would have been in had there been no failure to obtain relief from such withholding or deduction.

8.6 **Tax Position of the Lender**

The Lender represents that (a) at the date hereof it is resident in The Netherlands, a jurisdiction which has a Double Tax Treaty with Georgia under which the payment of interest by Georgian borrowers is able to be made without deduction or withholding of Georgian Tax (upon completion of any necessary formalities required in relation thereto) and that it will be able to receive the relevant certification from the Dutch tax authorities; (b) it does not have a permanent establishment in Georgia; and (c) it does not have any current intentions to effect, during the term of the Loan, any corporate action or re-organisation or change of taxing jurisdiction that would result in the Lender ceasing to qualify as a resident of The Netherlands under Article 4 of the Double Tax Treaty.

8.7 **Delivery of Forms**

(a) The Lender shall no later than 15 days before the first Interest Payment Date (and thereafter promptly after the beginning of each calendar year but in any event no later than 15 days before the first Interest Payment Date in a given year or such shorter period as might be necessary) or otherwise within 15 days of the request of the Borrower, (to the extent it is able to do so under applicable law) to deliver to the Borrower at the Borrower's expense such duly completed certificate issued by the competent taxing authority in The Netherlands or other Qualifying Jurisdiction confirming that the Lender is a tax resident in The Netherlands or other Qualifying Jurisdiction for the purpose of the Double Tax Treaty and such other information or forms as may be required (pursuant to the relevant procedures in connection with the obtaining of relief from deduction or withholding of Georgian Tax or Georgian Tax refunds in respect thereof) to be duly completed and delivered by the Lender with the assistance of the Borrower to enable the Borrower to apply to obtain relief from deduction or withholding of Georgian Tax or, as the case may be, to apply to obtain a Georgian Tax refund, if a relief from deduction or withholding of Georgian Tax has not been obtained. The certificate and, if required, other forms referred to in this Clause 8.7 shall be duly signed by the Lender and the Lender shall use its reasonable endeavours to procure the stamping or approval by the competent taxing authority in The Netherlands or other Qualifying Jurisdiction thereof and the requisite apostil thereof.

(b) If a relief from deduction or withholding of Georgian Tax under this Clause 8 has not been obtained and further to an application of the Borrower to the relevant Georgian Taxing Authority, the Georgian Taxing Authority makes a Tax refund to the Borrower, then, if and to the extent that the Borrower has failed to make payment of additional amounts in relation to the payments under this Agreement from which no such relief as aforesaid was obtained, the Borrower shall promptly transfer to the Lender an amount in U.S. dollars equivalent to such refund. The Borrower shall pay all costs (including, but not limited to, currency conversion costs) associated with such transfer.

(c) If a relief from deduction or withholding of Georgian Tax or a Georgian Tax refund under this Clause 8.7 has not been obtained and further to an application of the Borrower to the Georgian Taxing Authority, the Georgian Taxing Authority requests the Lender's Lari bank account details, the Lender shall (subject to it being satisfied that any such action is not adverse to its interests) at the request of the Borrower (i) use reasonable efforts to procure that such Lari bank account of the Lender is duly opened and maintained; and (ii) thereafter furnish the Borrower with the details of such Lari bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such Lari bank account.

8.8 **Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clause 7.2 (*Prepayment for Illegality*), Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Indemnity Amounts*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights or the Borrower's obligations under such Clauses, such party shall as soon as reasonably practicable upon becoming aware of such circumstances notify the other party and, thereupon, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to avoid or mitigate the effects of such circumstances, *provided that* the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might cause it to breach any provisions of any of the Issue Documents. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) by the Lender in connection with this Clause 8.8.

8.9 **Lender Notification**

The Lender agrees to notify the Borrower, promptly upon becoming aware thereof, if it ceases to be resident in The Netherlands or a Qualifying Jurisdiction or if any of the representations set forth in Clause 12 (*Representations and Warranties of the Lender*) are no longer true and correct.

9. TAX RECEIPTS

9.1 **Notification of Requirement to Deduct Tax**

If, at any time, the Borrower is required by law to make any deduction or withholding on account of Tax from any sum payable by it hereunder (or after any such notification there is any change in the rates at which, or the manner in which, such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender in writing and provide full details of such deduction or withholding.

9.2 **Evidence of Payment of Tax**

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant Taxing Authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 30 days after it has made such payment to the applicable Taxing Authority, an original receipt (or a certified copy thereof) issued by such Taxing Authority evidencing the payment to such Taxing Authority of all amounts so required to be deducted or withheld in respect of such payment.

10. CHANGES IN CIRCUMSTANCES

10.1 **Increased Costs**

If, by reason of (i) any Change of Law; and/or (ii) compliance by the Lender with any capital adequacy requirement, reserve or deposit requirement or any other request from or requirement of any central bank or other fiscal, monetary or other authority which has effect in The Netherlands (or any Qualifying Jurisdiction in which the Lender or any successor thereto is resident for Tax purposes):

(a) the Lender incurs an additional cost as a result of the Lender entering into or performing its obligations (including its obligation to make the Loan) under this Agreement;

(b) the Lender becomes liable to make any additional payment on account of Tax or otherwise on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder, except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Indemnity Amounts*); or

(c) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then the Borrower shall, from time to time, within 30 days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such cost or liability.

10.2 **Increased Costs Claims**

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*)) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

10.3 **Mitigation**

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to this Clause 10, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above-mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to avoid or mitigate the effects of such circumstances, *provided that* the Lender shall be under no obligation to take any such action if, in its opinion, to do so might have any adverse effect upon its business, operations or financial condition or might cause it to breach any provisions of any of the Issue Documents. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 10.3.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes and gives the representations, warranties and undertakings set out in Clauses 11.1 (*Incorporation, Capacity and Authorisation*) to 11.21 (*Corporate Actions and Legal Proceedings*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

11.1 **Incorporation, Capacity and Authorisation**

(a) The Borrower and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of Georgia or under the laws of its respective jurisdiction of incorporation, is not in liquidation, insolvency or receivership, has full power, capacity and lawful qualification to own or lease its property and assets and to conduct its business as currently conducted; (b) the Borrower has full power and capacity to execute this Agreement and the other Issue Documents to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein; and (c) the Borrower has taken all necessary corporate, legal and other action to duly approve, authorise and execute this Agreement and the other Issue Documents to which it is a party and the performance of this Agreement in accordance with its terms.

11.2 **Approvals**

All actions or things required to be taken, fulfilled or done by the laws or regulations of Georgia (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or Agency), and all registrations, filings or notarisations required by the laws or regulations of Georgia, in order to ensure (a) that the Borrower and each of its Material Subsidiaries is able to own its assets and carry on its business as currently conducted in all material respects; (b) the due execution, delivery and performance by the Borrower of the Issue Documents to which it is a party and such other documents contemplated in the Issue Documents; (c) the compliance by the Borrower with all the provisions of the Issue Documents to which it is a party; (d) the consummation of the transactions contemplated by the Issue Documents; and (e) the validity of and enforceability against the Borrower of this Agreement and the other Issue Documents to which it is a party have been obtained, fulfilled or done and are (and will, on the Borrowing Date, be) in full force and effect.

11.3 ***Pari Passu* Obligations**

The claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all of its other unsubordinated creditors, save those whose claims are preferred by mandatory provisions of applicable law.

11.4 **No Withholding Tax**

Under the laws of Georgia in force at the date of this Agreement and subject to the due satisfaction by the payee of certain conditions set forth in the Double Tax Treaty and of certain requirements of applicable Georgian legislation, payments of principal and interest by the Borrower to the Lender under this Agreement and all payments by the Borrower under the Fees and Indemnity Letter may be made without deduction or withholding of Georgian Tax.

11.5 **Governing Law**

In any proceedings (whether arbitration or otherwise) taken in Georgia in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Georgia, after compliance with the applicable procedural rules in Georgia.

11.6 **Validity and Admissibility in Evidence**

Except for making certified translations and/or notarisation and/or legalisation of this Agreement or the relevant Issue Document, all acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement and the other Issue Documents to which it is a party admissible in evidence in Georgia (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

11.7 **Valid and Binding Obligations**

The obligations expressed to be assumed by the Borrower in this Agreement and the other Issue Documents to which it is a party are or when executed will be legal, valid and binding, and enforceable against it in accordance with their terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and as to enforceability, to general principles of equity.

11.8 No Stamp Taxes

Under the laws of Georgia in force at the date of this Agreement it is not necessary that any tax, duty, fee or other charge including, without limitation, any registration or transfer tax, stamp duty or similar levy be paid on or in relation to any of the Issue Documents.

11.9 No Default

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default and no such event will occur upon or as a result of the making of the Loan.

11.10 No Material Proceedings

There are no lawsuits, litigations or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder; (b) adversely affect the right and power of the Borrower to enter into this Agreement; or (c) except as disclosed in the Prospectus, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

11.11 No Material Adverse Change

Since 31 December 2005, there has been no significant adverse change in the financial or trading position of the Borrower and/or the Group and no material adverse change, nor any development involving a prospective material adverse change, in the business, properties, condition (financial or otherwise) or results of operations of the Borrower and/or the Group.

11.12 Insurance Policies

The Borrower's and its Material Subsidiaries' insurance policies cover those of its and its Material Subsidiaries' properties which are of an insurable nature against loss or damage to the extent that property of a similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

11.13 Financial Statements

The Borrower's consolidated audited financial statements for the three years ended 31 December 2005, 2004 and 2003 and its unaudited interim consolidated financial statements as at and for the nine months ended 30 September 2006 (including corresponding amounts for the nine months ended 30 September 2005) were prepared in accordance with IFRS consistently applied and, in the case of such audited financial statements, present fairly (in conjunction with the notes thereto), in all material respects, the financial position of the Group and the results of its operations and of its cash flows for the periods for which they were prepared.

11.14 No Right of Immunity from Suit

Neither the Borrower nor any Material Subsidiary nor any of their respective properties has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.

11.15 **No Undisclosed Material Assets or Liabilities**

Neither the Borrower nor any other member of the Group had, as at the date of the issue of (a) the review report of the Auditors on the unaudited interim consolidated financial statements as at and for the nine months ending 30 September 2006 and (b) the audit report of the Auditors on the consolidated financial statements of the Borrower as at and for each of the years ended 31 December 2005, 2004 and 2003, any material assets or liabilities (contingent or otherwise) which were not disclosed or adequately reserved against in accordance with IFRS in the consolidated financial statements of the Borrower for the relevant period nor were there at those dates any material unrealised or anticipated losses of the Borrower or any Subsidiary of the Borrower arising from commitments entered into by any of them which were not so disclosed or reserved against in the consolidated financial statements of the Borrower for any relevant period as required by IFRS.

11.16 **Execution of Agreement**

The Borrower's execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

(a) violate or conflict with any existing applicable law, rule, regulation, judgement, order, directive or decree of any government, governmental body or court in Georgia binding upon the Borrower or any of its Subsidiaries; or

(b) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material indenture, trust deed, mortgage or other material contract, agreement or instrument to which the Borrower or any of its Subsidiaries is a party or by which it or any of its Subsidiaries, or any of its or its Subsidiaries' properties or assets, is bound nor result in the creation of any Security Interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries pursuant to the provisions of any such indenture, trust deed, mortgage, contract, agreement or instrument; or

(c) conflict with the provisions of its constitutive documents, its rules and regulations, or any resolution of its shareholders or the terms of its general banking licence granted to the Borrower by the National Bank of Georgia.

11.17 **Compliance with Georgian and other Applicable Laws**

Except as disclosed in the Prospectus, the Borrower and each of its Subsidiaries is in compliance in all material respects with all applicable provisions of the laws, directives of governmental authorities with the force of law and regulations of Georgia and their respective jurisdictions of incorporation.

11.18 **No Labour Strikes and Disturbances**

There are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes of or against the Borrower or any of its Subsidiaries which have been started or are pending or, to the Borrower's knowledge, threatened, except for those which would not have a Material Adverse Effect.

11.19 **Private and Commercial Acts**

The Borrower is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes.

11.20 **Compliance with Tax Obligations**

Neither the Borrower nor any of its Subsidiaries is materially overdue in the filing of any Tax returns, reports and other information required to be filed by it with any appropriate Taxing authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against it or any of its Subsidiaries except, in each case, where any failure to do so would not have a Material Adverse Effect.

11.21 **Corporate Actions and Legal Proceedings**

Neither the Borrower nor any of its Material Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.

11.22 **Repetition**

Each of the representations and warranties contained in this Clause 11 shall be deemed to be repeated (with reference to the facts and circumstances then subsisting) by the Borrower on the Borrowing Date.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender makes the representations and warranties set out in Clause 8.6 (*Tax Position of the Lender*) and this Clause 12 and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 **Status**

The Lender is duly incorporated under the laws of The Netherlands and is resident for Netherlands taxation purposes in The Netherlands and has full corporate power and capacity to enter into this Agreement, to issue the Funding Instruments and to undertake and perform the obligations expressed to be assumed by it herein.

12.2 **Authorised, Binding and Enforceable**

This Agreement has been duly authorised, executed and delivered by the Lender and constitutes legal, valid and binding obligations of the Lender and is enforceable against the Lender in accordance with its terms.

12.3 **Consents and Approvals**

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, the issue of the Funding Instruments and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein, have been obtained and are in full force and effect.

12.4 **No Conflicts**

The execution of this Agreement, the issue of the Funding Instruments and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of The Netherlands or the provisions of its constitutional documents, any agreement or instrument to which it is a party or by which it is bound or in respect of Indebtedness in relation to which it is a surety.

12.5 **Repetition**

Each of the representations and warranties within this Clause 12 shall be deemed to be repeated (by reference to the facts and circumstances then subsisting) by the Lender on the Borrowing Date.

13. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender and the Trustee (in sufficient copies as may reasonably be required by the Lender and/or the Trustee) all such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Funding Instruments may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Funding Instruments.

14. COVENANTS

The covenants in this Clause 14 remain in force from the date of this Agreement for so long as the Loan or any part of it is or may be outstanding.

14.1 **Continuance of Business, Maintenance of Authorisations and Legal Validity**

(a) The Borrower shall, and shall procure that each of its Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence (except as otherwise permitted by Clause 14.5 (*Mergers*)), and its business and the use of all material intellectual property relating to its business and the Borrower shall take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of all consents, licences, approvals and authorisations necessary in that regard.

(b) The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Georgia to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Georgia of this Agreement. In particular and without prejudice to the foregoing, the Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement (the "**Relevant Payments**"), *provided that*, in the event that the Borrower is prevented from paying such amounts by virtue of any requirement of the NBG or any other equivalent or similar authority, the Borrower undertakes that it will promptly obtain and maintain in full force and effect any necessary licences or other authorisations to enable it to make the Relevant Payments and shall, as soon as practicable thereafter, make all Relevant Payments under this Agreement.

14.2 **Notification of Default**

The Borrower shall promptly upon it becoming aware of the same inform the Lender and the Trustee of the occurrence of any Event of Default or Potential Event of Default and, within 10 Business Days of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

14.3 **Claims *Pari Passu***

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* in right of payment with the claims of all other unsubordinated creditors of the Borrower, save for those claims that are preferred by mandatory provisions of applicable law.

14.4 **Negative Pledge**

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless the Loan is secured equally and rateably with such other Indebtedness or Guarantee of Indebtedness or benefits from such security or arrangements, as the case may be, as are satisfactory to the Lender and the Trustee, or otherwise as approved by the Lender and the Trustee.

14.5 **Mergers**

Other than pursuant to a Permitted Reorganisation, the Borrower shall not, without the prior written consent of the Lender and the Trustee, (a) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (b) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or convey, transfer, lease, or otherwise dispose of, all or substantially all of the Borrower's properties or assets (determined on a consolidated basis) unless immediately after the transaction referred to in (a) or (b) above:

(i) the resulting or surviving person or the transferee (the "**Successor Entity**") shall be the Borrower or the Successor Entity (if not the Borrower) shall expressly assume, by an agreement supplemental to this Agreement in form and substance satisfactory to the Lender and the Trustee, executed and delivered to the Lender and the Trustee, all the rights and obligations of the Borrower under this Agreement;

(ii) the Successor Entity (if not the Borrower) shall retain or succeed to all of the rights and obligations of the Borrower under all the Borrower's material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(iii) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(iv) the relevant transaction referred to in (a) or (b) above does not result in a Material Adverse Effect.

14.6 **Disposals**

(a) Except as otherwise permitted by this Agreement and without prejudice to the provisions of Clause 14.7 (*Transactions with Affiliates)*, the Borrower shall not, and shall ensure that none of its

Subsidiaries will, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets unless (i) each such transaction is on arm's-length terms for Fair Market Value; and (ii) with respect to any disposal of revenues or assets constituting more than 10 per cent. of the Group's total assets determined on a consolidated basis by reference to the Borrower's consolidated financial statements prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Borrower shall, prior to the disposal, provide the Lender and the Trustee with a written opinion from an Independent Appraiser to the effect that the transaction is at Fair Market Value and fair, from a financial point of view, to the Borrower or the relevant Subsidiary, as the case may be.

(b) This Clause 14.6 shall not apply to (i) any transaction between the Borrower and any of its wholly-owned Subsidiaries, (ii) any sale, lease, transfer or other disposal of any assets or property (including cash and securities) pledged as collateral by the Borrower or any of its Subsidiaries in the ordinary course of the Borrower's or, as the case may be, the relevant Subsidiary's business, (iii) any disposal of assets in connection with a Permitted Reorganisation or (iv) any present or future assets or revenues or any part thereof that are the subject of any securitisation or any receivables, asset-backed financing or similar financing structure and whereby all payment obligations are to be discharged solely from such assets or revenues, *provided that* the value of such assets or revenues which are the subject the relevant financing structure when aggregated with the value of all assets or revenues subject to a Security Interest permitted under paragraph (g) of the definition of "Permitted Security Interests", does not, at any time, exceed 25 per cent. of the Borrower's loans and advances to customers, as determined by reference to the consolidated balance sheet of the Borrower prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

14.7 **Transactions with Affiliates**

(a) The Borrower shall not, and shall ensure that none of its Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.

(b) With respect to an Affiliate Transaction or a series of Affiliate Transactions involving aggregate payments or value in excess of 1 per cent. of the Group's assets, as determined by reference to the Borrower's consolidated balance sheet as at the end of the most recent IFRS Fiscal Period prepared in accordance with IFRS, the Borrower shall, prior to the relevant Affiliate Transaction, deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) is at Fair Market Value and is fair from a financial point of view to the Borrower or the relevant Subsidiary, as the case may be.

(c) The following items shall not be deemed to be Affiliate Transactions and therefore shall not be subject to the provisions of (a) and (b) above:

(i) any employment agreement entered into by the Borrower or any of its Subsidiaries in the ordinary course of business and consistent with the Borrower's past practice or the past practice of such Subsidiary;

(ii) transactions between or among the Borrower, a new Holding Company and/or their respective wholly-owned Subsidiaries;

(iii) payment of reasonable directors fees to Persons who are not otherwise Affiliates of the Borrower;

(iv) sales of Capital Stock to shareholders of the Borrower and their respective Affiliates; and

(v) a Permitted Reorganisation.

14.8 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Tax, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Borrower and/or its Subsidiaries, *provided that*, neither the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed U.S.$1,000,000.

14.9 Restricted Payments

The Borrower shall not, and shall procure and ensure that each of its Subsidiaries will not, directly or indirectly voluntarily purchase, redeem or otherwise retire for value any Capital Stock or, prior to scheduled maturity or scheduled repayment, subordinated debt (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time or retirement of any Capital Stock of a Subsidiary) (any such action, a "**Restricted Payment**") if such Restricted Payment when aggregated with all other Restricted Payments and any dividend, in cash or otherwise, or other distribution (whether by way of redemption, acquisition or otherwise) declared, paid or made in respect of its Capital Stock, other than dividends or distributions payable to the Borrower, a New Holding Company or any of their respective Subsidiaries, previously made in the relevant fiscal year exceeds 50 per cent. of the Borrower's or, following a Permitted Reorganisation, the New Holding Company's consolidated net profit (calculated in accordance with IFRS) for the immediately preceding fiscal year or if such Restricted Payment would cause or result in a breach of one or more of the covenants contained in Clause 14.17 (*Financial Covenants*).

14.10 Indebtedness

The Borrower shall not permit, and shall procure that each New Holding Company shall not permit, any of their respective Subsidiaries (other than the Borrower) to create, incur, assume or otherwise become liable in respect of any Indebtedness, other than:

(a) any Indebtedness of any Subsidiary of the Borrower or a New Holding Company to the Borrower or a New Holding Company;

(b) any Indebtedness incurred to finance any non-banking Subsidiary's business, *provided that* the aggregate principal amount of all such Indebtedness permitted under this paragraph (b) does not at any time exceed 20 per cent. of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

(c) any Indebtedness incurred to finance any banking Subsidiary's business, *provided that* such Subsidiary shall at all times:

(i) comply with prudential supervision ratios and other requirements of the relevant national banking supervision authority, except to the extent that failure to comply could not be reasonably expected to have a Material Adverse Effect and except to the extent that any non compliance is waived by such relevant national banking supervision authority;

(ii) maintain a ratio of Capital to Risk Weighted Assets of not less than 12 per cent.;

(iii) maintain a ratio of Tier 1 Capital to Risk Weighted Assets of not less than 8 per cent.; and

(iv) maintain a ratio of Exposure to any Single Party to Capital of not more than 20 per cent;

(d) any Indebtedness of any Subsidiary of the Borrower or a New Holding Company in existence on the date of the occurrence of the relevant Permitted Reorganisation; and

(e) Indebtedness incurred by any single-purpose financing Subsidiaries whose activities (other than insignificant ancillary activities) are restricted to the raising of financing to be substantially on-lent to the Borrower or a New Holding Company, whose obligations are guaranteed by the Borrower or a New Holding Company and which do not hold any significant assets other than loans and associated assets resulting from its on-lending activities to the Borrower or a New Holding Company.

14.11 **Guarantees**

The Borrower shall not extend any Guarantee in respect of any Indebtedness of any of its Subsidiaries in excess of, in the aggregate, 1 per cent. of the consolidated total assets of the Borrower, as determined by reference to the consolidated balance sheet of the Borrower prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

14.12 **Financial Information**

(a) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 180 days after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the report of the Auditors thereon.

(b) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee within 120 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited consolidated financial statements for six months, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period.

(c) The Borrower hereby undertakes that it will deliver to the Lender and the Trustee, upon request and without delay, such additional information regarding the financial position or the business of the Borrower, any of its Subsidiaries and/or the Group as the Lender and/or the Trustee may request.

14.13 **Compliance Certificates and List of Subsidiaries**

(a) On each Interest Payment Date or promptly upon becoming aware thereof, the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, the action the Borrower is taking or proposes to take with respect to it.

(b) On each Interest Payment Date (other then the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender copied to the Trustee, written notice in the form of an Officers' Certificate listing its Subsidiaries and those of each New Holding Company.

14.14 **Maintenance of Property**

The Borrower will and shall procure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or any such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

14.15 **Maintenance of Insurance**

The Borrower shall, and shall procure that its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers, believed by the Borrower or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdiction.

14.16 **Compliance with Applicable Laws**

The Borrower will at all times comply, and shall procure that each of its Subsidiaries complies at all times, in all material respects with all provisions of applicable laws, including directives of governmental authorities and regulations.

14.17 **Financial Covenants**

The Borrower shall (except as otherwise specifically provided or agreed by the Lender and the Trustee) at all times:

(a) comply with prudential supervision ratios and other requirements of the NBG, except to the extent that failure to comply could not be reasonably expected to have a Material Adverse Effect and except to the extent that any non compliance is waived by the NBG;

(b) maintain a ratio of Capital to Risk Weighted Assets of not less than 12 per cent.;

(c) maintain a ratio of Tier 1 Capital to Risk Weighted Assets of not less than 10 per cent.; and

(d) maintain a ratio of Exposure to any Single Party to Capital of not more than 20 per cent.

14.18 **Change of Business**

The Borrower shall procure that no material change is made to the general nature of the business of the Group, taken as a whole, from that carried on at the date of this Agreement.

14.19 Funding Instruments Held by the Borrower

Upon being so requested in writing by the Lender, the Borrower shall deliver to the Lender, with a copy to the Trustee, an Officers' Certificate setting out the total principal amount of Funding Instruments which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower or a New Holding Company) and have not been cancelled and are retained by it for its own account or for the account of any other company in the Group.

15. EVENTS OF DEFAULT

Each of Clauses 15.1 (*Failure to Pay*) to 15.10 (*Analogous Events*) describes the circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Events of Default shall occur, the Lender shall be entitled to the remedies set forth in Clause 15.12 (*Acceleration*).

15.1 Failure to Pay

The Borrower fails to pay any interest, principal or other sum due from it hereunder at the time, in the currency and in the manner specified herein and such default is not remedied within five days of the due date for payment.

15.2 Obligations and Covenants

The Borrower or a New Holding Company fails duly to perform or comply with, or is otherwise in breach of any other of its obligations (other than set out in Clause 15.1 (*Failure to Pay*)) or covenants expressed to be assumed by it in this Agreement or any Relevant Guarantee and such failure or breach is not remedied within 30 days after the Lender has given notice of it to the Borrower or the New Holding Company, as the case may be, requiring the same to be remedied.

15.3 Cross-Default

(a) Any Indebtedness of the Borrower, any New Holding Company or any of their respective Subsidiaries becomes due and payable or becomes capable of being declared due and payable prior to the stated maturity thereof following a default (howsoever described) by the Borrower or any of its Subsidiaries; or (b) the Borrower, any New Holding Company or any of their respective Subsidiaries fails to make any payment of principal in respect of any Indebtedness of the Borrower, any New Holding Company or any of their respective Subsidiaries or to make any payment under any Guarantee of any Indebtedness on the date on which such payment is due and payable or prior to the expiration of any grace period originally applicable thereto, unless the aggregate amount of Indebtedness relating to all the above events is less than U.S.$5,000,000 (or its equivalent in any other currency).

15.4 Validity and Illegality

The validity of this Agreement, any Relevant Guarantee or the Issue Documents is contested by the Borrower or a new Holding Company, or the Borrower or a New Holding Company denies any of its obligations under this Agreement, any Relevant Guarantee or the Issue Documents or it is, or will become, unlawful for the Borrower or a New Holding Company to perform or comply with any of its obligations under this Agreement, any Relevant Guarantee or the Issue Documents or any of such obligations becomes unenforceable or ceases to be legal, valid and binding, subject as provided in Clause 11.7 (*Valid and Binding Obligations*) or in the Relevant Guarantee.

15.5 **Authorisations**

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower or a New Holding Company to enter into or perform its obligations under this Agreement or any Relevant Guarantee or for the validity or enforceability thereof expires, or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect.

15.6 **Insolvency**

(a) The occurrence of any of the following events: (i) the Borrower, a New Holding Company or any of their respective Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission or a similar officer; (ii) the presentation or filing of a petition in respect of the Borrower, a New Holding Company or any of their respective Subsidiaries in any court, arbitration court or before any agency alleging its or for its bankruptcy, insolvency, dissolution or liquidation; (iii) the institution of supervision, external management or bankruptcy management to the Borrower, a New Holding Company or any of their respective Subsidiaries; (iv) the convening or announcement of an intention to convene a meeting of creditors of the Borrower, a New Holding Company or any of their respective Subsidiaries for the purposes of considering an amicable settlement; and/or (v) any extra-judicial liquidation or analogous act in respect of the Borrower, a New Holding Company or any of their respective Subsidiaries by any Agency in or of Georgia.

(b) The Borrower, a New Holding Company or any of their respective Subsidiaries: (i) fails or is unable to pay its debts generally as they become due; (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Borrower, a New Holding Company or any of their respective Subsidiaries or any part of their respective property.

(c) The shareholders of the Borrower or a New Holding Company approve any plan for the liquidation or dissolution of the Borrower or such New Holding Company.

15.7 **Unsatisfied Judgements, Governmental or Court Actions**

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Borrower, a New Holding Company and/or any of their respective Subsidiaries exceeds U.S.$5,000,000 or the equivalent thereof in any other currency or currencies, or any such unsatisfied judgment, decree or order results in (a) the management of the Borrower, a New Holding Company or any Material Subsidiary being wholly or partially displaced or the authority of the Borrower, a New Holding Company or any Material Subsidiary in the conduct of its business being wholly or partially curtailed, (b) all or a majority of the issued shares of the Borrower, a New Holding Company or any Material Subsidiary or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets being seized, nationalised, expropriated or compulsorily acquired or (c) the Borrower's banking licence or its licence for taking deposits from individuals being revoked.

15.8 **Execution and Distress**

Any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Borrower, a New Holding Company or any Material Subsidiary.

15.9 Excess Distributions

The Borrower, any New Holding Company or any of their respective Subsidiaries shall declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its Capital Stock, other than dividends or distribution payable to the Borrower, a New Holding Company or any of their respective Subsidiaries, if such distribution when aggregated with all other such distributions and any Restricted Payments previously made in the relevant fiscal year exceeds 50 per cent. of the Borrower's or, following a Permitted Reorganisation, the New Holding Company's consolidated net profit (calculated in accordance with IFRS) for that immediately preceding fiscal year or if such distributions would cause or result in a breach of one or more of the covenants contained in Clause 14.17 (*Financial Covenants*).

15.10 Analogous Events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clause 15.6 (*Insolvency*) and Clause 15.7 (*Unsatisfied Judgements, Governmental or Court Actions*).

15.11 Acceleration

If an Event of Default has occurred and is continuing, the Lender may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable upon the demand of the Lender *provided that* if any event of any kind referred to in Clause 15.6 (*Insolvency*) occurs, the Loan and obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

15.12 Amounts Due on Demand

If, pursuant to Clause 15.12 (*Acceleration*), the Lender declares the outstanding principal amount of the Loan to be due and payable upon the demand of the Lender, then, and at any time thereafter, the Lender may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

16. DEFAULT INTEREST AND INDEMNITY

16.1 Default Interest

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*), interest will continue to accrue on such sum at a rate per annum equal to the Rate of Interest up to but excluding the date on which it is paid by the Borrower.

16.2 The Borrower's Indemnity to the Lender

The Borrower undertakes to the Lender, that if the Lender, any of its Affiliates, or any employee or agent of the Lender or any such Affiliate (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, damage or expense (including, without limitation, legal fees, costs and expenses and any VAT thereon) (a "**Loss**") as a result of or in connection with any Event of Default, any Potential Event of

Default, the Loan, this Agreement (or enforcement hereof), the issue, constitution, sale, listing or enforcement of the Funding Instruments, the Funding Instruments being outstanding (including any Loss incurred under any Issue Documents or the Subscription Agreement) or any combination of any of the foregoing, then the Borrower shall pay to the Lender on the written demand of the Lender an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim, as such costs, charges and expenses are incurred. The Lender shall not have any duty or obligation, whether as fiduciary or trustee, for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause 16.2.

16.3 **Independent Obligation**

Clause 16.2 (*The Borrower's Indemnity to the Lender*) constitutes an obligation of the Borrower separate and independent from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Funding Instruments and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

16.4 **Evidence of Loss**

A certificate of the Lender setting forth the Loss shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

16.5 **Survival**

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.3 (*Indemnity Amounts*), 10 (*Changes in Circumstances*), 16 (*Default Interest and Indemnity*), 17 (*Currency of Account and Payment*), 18.3 (*No Set-off*) and 19 (*Costs and Expenses*) shall survive the execution and delivery of this Agreement and the borrowing and the repayment of the Loan, in each case by the Borrower.

17. CURRENCY OF ACCOUNT AND PAYMENT

17.1 **Currency of Account**

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

17.2 **Currency Indemnity**

If any sum due from the Borrower under this Agreement or any order or judgement given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgement into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Borrower; (b) obtaining an order or judgement in any court or other tribunal; or (c) enforcing any order or judgement given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender and the Trustee from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgement, claim or proof.

18. PAYMENTS

18.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds not later than 10.00 a.m. (New York City time) one Business Day prior to such date (or in such other funds as may for the time being be customary for the settlement of international banking transactions in U.S. dollars) to the Account other than amounts payable (i) in respect of Reserved Rights; (ii) under the Fees and Indemnity Letter; or (iii) in relation to Clause 16.2 (*The Borrower's Indemnity to the Lender*), which the Borrower shall pay to such other account or accounts as the Lender shall notify to the Borrower, provided that if the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments, which would otherwise be made to the Account, to such account as shall be notified by the Trustee to the Borrower.

Without prejudice to its obligations under Clause 5.1 (*Payments of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the second Banking Day before the due date of each payment made by it under this Agreement, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business (including dealings in foreign currencies) in New York City.

18.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 18.1 (*Payments to the Lender*), then the Borrower may agree with the Lender and the Trustee alternative arrangements for the payment to the Lender of amounts due (prior to the delivery of the notice by the Trustee referred to in Clause 18.1 (*Payments to the Lender*)) under this Agreement, *provided that*, in the absence of any such agreement with the Lender and the Trustee, the Borrower shall be obliged to make all payments due to the Lender in the manner specified by the Lender or the Trustee.

18.3 No Set-off

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

19. COSTS AND EXPENSES

19.1 Transaction Expenses and Fees

The Borrower agrees to pay the fees and expenses specified in the Fees and Indemnity Letter to the parties entitled thereto, in the amounts, at the times and on the dates specified therein.

19.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time, on the written demand of the Lender reimburse the Lender for all properly documented costs and expenses (including, without limitation, legal fees) and, in each case, together with any VAT thereon, properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement or any Relevant Guarantee.

19.3 **Stamp Taxes**

The Borrower shall pay all stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection therewith) to which this Agreement or any Relevant Guarantee or any judgement given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on the written demand of the Lender, indemnify the Lender against any liabilities, losses, costs or expenses (including, without limitation, legal fees and any applicable VAT thereon) and claims, actions or demands resulting from any failure to pay or any delay in paying any such duty or tax.

19.4 **Costs relating to Amendments and Waivers**

The Borrower shall, from time to time, on written demand of the Lender (and without prejudice to the provisions of Clause 16.2 (*The Borrower's Indemnity to the Lender*) and Clause 19.2 (*Preservation and Enforcement of Rights*)) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time determine for all time expended by the Lender, its directors, officers, employees and/or agents, and for all costs and expenses (including telephone, fax, copying and travel costs) they may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

(a) the granting or proposed granting of any waiver or consent requested under this Agreement or any Relevant Guarantee by the Borrower;

(b) any actual, potential or suspected breach by the Borrower or a New Holding Company of any of its obligations under this Agreement;

(c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(d) any amendment or proposed amendment to this Agreement or a Relevant Guarantee requested by the Borrower.

19.5 **Costs of Auditors**

The Borrower agrees that the Lender and/or the Trustee shall have the right to engage the Auditors at any time and on any number of occasions to provide a report and adjudication on the Fair Market Value of one or more transactions and the Borrower agrees to pay the full cost of any such report in advance of the Auditors beginning work on it.

20. ASSIGNMENTS AND TRANSFERS

20.1 **Binding Agreement**

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

20.2 **No Assignments and Transfers by the Borrower**

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

20.3 **Assignments by the Lender**

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than to the Trustee under the Trust Deed.

21. CALCULATIONS AND EVIDENCE OF DEBT

21.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder and in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clauses 8.3 (*Indemnity Amounts*), 10.1 (*Increased Costs*), 16.2 (*The Borrower's Indemnity to the Lender*) and 19 (*Costs and Expenses*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower.

22. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

22.1 Remedies and Waivers

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23. NOTICES; LANGUAGE

23.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

23.2 Giving of Notice

(a) Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days written notice specified another address) be made or delivered to that other person, addressed as follows:

(i) If to the Borrower:

Joint Stock Company Bank of Georgia

3 Pushkin Street
Tbilisi, 0105
Georgia

Attention: Irakli Gilauri
Tel: +995 32 444 109
Fax: +995 32 921 972

and

Attention: Thea Jokhadze, Head of Funding
Tel: +995 32 444 192
Fax: +995 32 921 174

(ii) If to the Lender:

BG Finance B.V.
140 Teleportboulevard
1043 EJ, Amsterdam
The Netherlands

Attention: Gerard van Hunen, ING Management (Nederland) B.V.
Tel: +31 20 540 5864
Fax: +31 20 644 7011

23.3 **Delivery**

(a) Any communication or document made or delivered by one person to another under or in connection with the Issue Documents will only be effective:

(i) if by way of fax, when received in legible form; or

(ii) if by way of letter, when received,

in each case *provided that* it is received on a Business Day (failing which it shall be deemed to be received at the start of normal business hours on the following Business Day) and, if a particular department or officer is specified as part of its address details provided under Clause 23.2 (*Giving of Notice*), if addressed to that department or officer.

(b) Electronic communication. Any communication to be made under or in connection with the Issue Documents may be made by electronic mail or other electronic means, if the relevant parties:

(i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;

(ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and

(iii) notify each other of any change to their address or any other such information supplied by them.

Any electronic communication made or delivered by one person to another will be effective only when actually received in readable form and only if it is addressed in such a manner as specified for such purpose.

23.4 **English Language**

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Georgian versions of such communication or document or any dispute regarding the interpretation of any provision in the English or Georgian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

24. LAW AND JURISDICTION

24.1 **English Law**

This Agreement is governed by, and shall be construed in accordance with, English law.

24.2 **English Courts**

Subject to Clause 24.6 (*Arbitration*), the Borrower agrees for the benefit of the Lender that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which arise out of or in connection with this Agreement ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

24.3 **Appropriate Forum**

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes (as defined below), and agrees not to claim that any such court is not a convenient or appropriate forum.

24.4 **Service of Process**

The Borrower agrees that the service of process relating to any Proceedings in England or Wales may be by delivery to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 24.4 shall affect the right of the Lender to serve process in any other manner permitted by law.

24.5 **Non-exclusivity**

The submission by the Borrower to the jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender to bring Proceedings in any other court of competent jurisdiction.

24.6 **Arbitration**

If any dispute or difference of whatever nature howsoever arises from or in connection with this Agreement (or any supplement, modification or addition hereto) (each a "**Dispute**"), each of the Lender and the Trustee may elect, by notice in writing to the Borrower, to settle such Dispute by arbitration in accordance with the following provisions. The Borrower hereby agrees that any Dispute may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the

“**Rules**”) as at present in force and as modified by this Clause 24.6, which Rules shall be deemed incorporated in this Clause 24.6. The number of arbitrators shall be three. Each party shall nominate one arbitrator and the two party-nominated arbitrators shall jointly nominate the third, who will act as the chairman. The seat of arbitration shall be London, England and the language of the arbitration shall be English.

24.7 **Waiver of Immunity**

To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making judgement, award or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the law of such jurisdiction.

24.8 **Rights of Third Parties**

A person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act including the rights of the Trustee under the Issue Documents.

25. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

TERMS AND CONDITIONS OF THE NOTES

The U.S.$200,000,000 9.0 per cent. Loan Participation Notes due 2012 (the "**Notes**", which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of BG Finance B.V. (the "**Issuer**", which expression includes, unless the context requires otherwise, any entity substituted for the Issuer pursuant to Condition 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*)) are constituted by, are subject to, and have the benefit of, a trust deed dated 8 February 2007 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and BNY Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 8 February 2007 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Bank of New York (Luxembourg) S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**", which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the "**Paying and Transfer Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying and Transfer Agent and the Paying and Transfer Agents and any reference to an "Agent" is to any one of them.

Certain provisions of these Conditions include definitions to be found in, and summaries of detailed provisions of, the Trust Deed, the loan agreement dated 6 February 2007, between the Issuer and Joint Stock Company Bank of Georgia ("**Bank of Georgia**") (the "**Loan Agreement**") and/or, as the case may be, the Agency Agreement and such summaries are subject to their detailed provisions and definitions.

The Noteholders (as defined in Condition 2(A)) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed, the Loan Agreement and the Agency Agreement applicable to them.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London E14 5AL, United Kingdom and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.$200,000,000 (the "**Loan**") to Bank of Georgia. The terms of the Loan are recorded in the Loan Agreement.

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (Payments) and Condition 7 (Taxation) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received and retained by or for the account of the Issuer from Bank of Georgia pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights (as defined below)). Noteholders must therefore rely solely and exclusively upon the covenant of Bank of Georgia to pay under the Loan Agreement and the credit and financial standing of Bank of Georgia. Noteholders shall have no recourse (direct or indirect) to any assets of the Issuer except pursuant to the Note Security (as defined below).

1. FORM AND DENOMINATION; STATUS; LIMITED RECOURSE; SECURITY

(A) Form and Denomination

The Notes are in registered form, without interest coupons attached, in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

(B) Status

The Notes constitute direct limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition 1(C) (*Limited Recourse*) below. The Notes are secured in the manner described in Condition 1(D) (*Security*) below and shall rank at all times *pari passu* and without preference amongst themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance and advance the Loan.

(C) Limited Recourse

The obligations of the Issuer are solely to make payments of amounts which in aggregate are equal to principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer from Bank of Georgia pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant of Bank of Georgia to pay under the Loan Agreement and the credit and financial standing of Bank of Georgia. Noteholders shall have no recourse (direct or indirect) to any assets of the Issuer, except pursuant to the Note Security.

Subject to the foregoing and these Conditions, payments in respect of the Notes will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability or obligation in respect of the performance and observance by Bank of Georgia of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Indemnity Amounts or other amounts, if any, due or to become due from Bank of Georgia under the Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of Bank of Georgia;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of Bank of Georgia under or in respect of the Loan Agreement;

(iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, the Principal Paying and Transfer Agent or any Paying and Transfer Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by Bank of Georgia of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. Bank of Georgia has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of Bank of Georgia;

(vi) the Issuer (and following the creation of the Note Security (as defined below) the Trustee) will rely on self-certification by Bank of Georgia and, where applicable, certification by third parties as a means of monitoring whether Bank of Georgia is complying with its obligations under the Loan Agreement and shall not be otherwise responsible for investigating any aspect of Bank of Georgia's performance in relation thereto. Subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Note Security (as defined below) and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Note Security whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Note Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security;

(vii) if Bank of Georgia is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from Bank of Georgia under the Loan Agreement in respect of such payment, including, if applicable, by way of Additional Amounts or Indemnity Amounts (in respect of tax required to be withheld or deducted); and

(viii) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from Bank of Georgia the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to Bank of Georgia except through action by the Trustee under the Note Security. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, following the enforcement of the Note Security created in the Trust Deed, the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

(D) Security

The Issuer has:

(i) charged by way of first fixed charge to the Trustee all of the Issuer's rights, interests and benefits in and to: (a) principal, interest and other amounts now or hereafter paid and payable by Bank of Georgia to the Issuer under the Loan Agreement; and (b) all amounts now or hereafter paid or payable by Bank of Georgia to the Issuer under or in respect of any claim, award or judgment relating to the Loan Agreement (in each case other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: (Clause 7.4 second sentence thereof (*Costs of Prepayment*), Clause 8.1 (*Additional Amounts*) (to the extent that the Issuer has received amounts to which the Noteholders are not entitled), Clause 8.3 (*Indemnity Amounts*), Clause 8.5 (*Tax Credits and Tax Refunds*), Clause 10 (*Changes in Circumstances*), Clause 12.2 (*Currency Indemnity*) and Clause 19 (*Costs and Expenses*) (to the extent that the Issuer's Claim is in respect of one of the aforementioned clauses of the Loan Agreement) (such rights are referred to herein as the "**Reserved Rights**"));

(ii) charged by way of first fixed charge to the Trustee all of the Issuer's rights, title and interest and benefits in and to all sums of money held on deposit from time to time in the Account (as defined in the Loan Agreement) with the Principal Paying and Transfer Agent in favour of the Trustee for the benefit of the Noteholders, together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-clause (D)(ii), together with sub-clause (D)(i) other than the Reserved Rights, the "**Charged Property**"); and

(iii) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of Bank of Georgia thereunder), other than the Charged Property, the Reserved Rights and any amounts payable by Bank of Georgia in relation to the Charged Property and the Reserved Rights (the "**Transferred Rights**" and together with the Charged Property, the "**Note Security**").

In the circumstances set out in Condition 12 (*Enforcement*), the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Note Security).

Notwithstanding any other provisions of the Trust Deed and the Conditions, the Trustee and the Noteholders shall have recourse only to the Note Security in accordance with Clause 8 (*Application of Moneys Received by the Trustee*) of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 8 (*Application of Moneys Received by the Trustee*) of the Trust Deed, the Issuer's payment obligations under the Trust Deed and the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, but without prejudice to their right to lodge a claim in the liquidation of the Issuer which is initiated by another party or to take proceedings to obtain a declaration or judgement as to the obligations of the Issuer, neither the Trustee nor any Noteholder shall petition or take any step for the winding up of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. REGISTER; TITLE; TRANSFERS

(A) Register

The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "holder" or "**Noteholder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

(B) Title

The Noteholder of each Note as recorded in the Register shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Noteholder.

(C) Transfers

Subject to Condition 2(F) (*Closed Periods*) and Condition 2(G) (*Regulations Concerning Transfers and Registration*), a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Noteholder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and Delivery of Note Certificates

Within five business days of the surrender of a Note Certificate in accordance with Condition 2(C) (*Transfers*), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Noteholder for collection at its Specified Office or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Noteholder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Noteholder. In this paragraph, "business day" means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying and Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Paying and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Paying and Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, a copy of the current regulations will be publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London.

3. ISSUER'S COVENANTS

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to, any modification of, any waiver of or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee, from time to time, with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

Save as provided above and save as permitted by Condition 13 (*Further Issues*), so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed money, engage in any other business (other than acquiring and holding the Note Security, making the Loan to Bank of Georgia pursuant to the Loan Agreement and performing any act incidental to or necessary in connection with the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions, the Trust Deed and the Loan Agreement), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of The Netherlands, petition for any winding-up or bankruptcy.

4. INTEREST

(A) Accrual of Interest

The Notes bear interest from 8 February 2007 (the "**Issue Date**") at the rate of 9.0 per cent. per annum (the "**Rate of Interest**") payable in two equal instalments semi-annually in arrears on 8 February and 8 August in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*). Each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to accrue interest at such rate (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying and Transfer Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of a Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is required to be calculated in respect of a period other than an Interest Period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

(B) Default Interest under the Loan Agreement

In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from Bank of Georgia pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement (less any amounts in respect of the Reserved Rights), then the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received (less any amounts in respect of the Reserved Rights). Any payments made by the Issuer under this Condition 4(B) will be made on the next following business day (as defined in Condition 6(D)) after the day on which the Issuer receives such amounts from Bank of Georgia and, save as provided in this Condition 4(B), subject as provided in Condition 6 (*Payments*).

5. REDEMPTION; PURCHASE

(A) Scheduled Redemption

Unless previously (i) prepaid pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstance*), Clause 7.2 (*Prepayment for Illegality*) or Clause 7.3 (*Prepayment upon a Put Event*) of the Loan Agreement; (ii) purchased and cancelled as provided in Clause 7.6 (*Purchase of Funding Instruments*) of the Loan Agreement; or (iii) repaid in accordance with Clause 15 (*Events of Default*) of the Loan Agreement (and if prepaid in part only the remainder of this Condition 5(A) will apply to the outstanding part that is still to be repaid but the reference to "all the Notes" shall be read as a reference to those Notes that are still outstanding only), Bank of Georgia will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayments, all the Notes will be redeemed at their principal amount on 8 February 2012, subject as provided in Condition (6) (*Payments*).

(B) Mandatory Early Redemption

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the relevant notice of prepayment referred to in Condition 5(B)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to (but excluding) the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has received a notice of prepayment from Bank of Georgia pursuant to Clause 7.1 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement; or

(ii) the Issuer has delivered a notice to Bank of Georgia requiring Bank of Georgia to repay the whole (but not part only) of the Loan in accordance with the provisions of Clause 7.2 (*Prepayment for*

Illegality) of the Loan Agreement and setting out details of the circumstances contemplated by such provisions.

Prior to the publication of any notice of redemption to Noteholders referred to in this Condition 5(B), the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer:

(i) stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(B);

(ii) including (a) copies of Bank of Georgia's notice of prepayment to the Issuer (if Condition 5(B)(i) above applies); or (b) copies of the Issuer's notice to Bank of Georgia (if Condition 5(B)(ii) applies) and details of the circumstances contemplated by Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement; and

(iii) stating the date fixed for redemption of the Notes.

The Trustee shall be entitled to accept any certificate delivered by the Issuer in accordance with this Condition 5(B) as sufficient evidence of the satisfaction of the applicable circumstances, in which event such certificate shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(B), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(B), subject as provided in Condition 6 (*Payments*).

(C) Redemption at the Option of the Noteholders upon a Put Event

Under Clause 7.3(a) (*Prepayment upon a Put Event*) of the Loan Agreement, upon the occurrence of a Put Event (as defined below) Bank of Georgia is obliged to notify the Issuer, the Principal Paying and Transfer Agent and the Trustee thereof.

The Principal Paying and Transfer Agent shall (i) upon receiving written notice from the Issuer or Bank of Georgia of the occurrence of a Put Event or (ii) upon the request of at least 25 per cent. of the Noteholders, in each case giving details of the relevant Put Event as provided in Clause 7.3(a) (*Prepayment upon a Put Event*) of the Loan Agreement, give notice (a "**Put Event Notice**") to the Noteholders (in accordance with Condition 14 (*Notices*)) of the occurrence of such Put Event. Each Put Event Notice will specify the nature of the Put Event and the procedure for exercising the put option contained in this Condition 5(C).

To exercise the right to require the redemption of a Note under this Condition 5(C), a Noteholder must deliver, on any Put Business Day (as defined below) falling within the period of 30 days after the Put Event Notice is given by the Trustee (the "**Put Period**"), to the specified office of any Paying and Transfer Agent, such Note together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying and Transfer Agent (a "**Put Option Exercise Notice**") (unless, prior to the delivery of the Put Option Exercise Notice, the Issuer gives notice to the Noteholders under Condition 5(B) above or the Loan becomes due and payable pursuant to Clause 15 (*Events of Default*) of the Loan Agreement).

The Paying and Transfer Agent, to whom such Note and Put Option Exercise Notice is delivered, will issue to the Noteholder concerned a non-transferable receipt and give notice to the Trustee, the Issuer and the Principal Paying and Transfer Agent that the Noteholder concerned wishes to redeem the Note which is the subject of such Put Option Exercise Notice.

A Put Option Exercise Notice, once given, shall be irrevocable.

At the end of the Put Period, the Trustee shall deliver or shall instruct the Issuer to deliver a Put Redemption Notice (as defined below in the Loan Agreement) to Bank of Georgia as contemplated by Clause 7.3(b) (*Prepayment upon a Put Event*) of the Loan Agreement.

Any Note which is the subject of a Put Option Exercise Notice and which has been delivered to the Principal Paying and Transfer Agent or other Paying and Transfer Agent prior to the expiry of the Put Period shall be redeemed by the Issuer on the date which is the fifteenth Put Business Day (as defined below) immediately following the last day of the Put Period (the "**Put Settlement Date**").

Redemption by the Issuer shall be subject to receipt of the relevant monies from Bank of Georgia under the Loan Agreement. To the extent that such payment is received by the Issuer under the Loan Agreement, the Issuer shall be required to redeem each Note held by the relevant Noteholder on the Put Settlement Date at its principal amount together with accrued interest (if any) up to (but excluding) the Put Settlement Date.

The Loan Agreement permits certain reorganisations by Bank of Georgia and its Subsidiaries and, in particular, permits the transfer of stock to a new holding company of Bank of Georgia provided that the new holding company has given a guarantee of Bank of Georgia's obligations under the Loan Agreement pursuant to a deed of guarantee containing covenants broadly similar to those described above.

In this Condition 5(C):

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Asset Sale**" means the sale, conveyance, transfer or lease (whether in a single transaction or in a series of related transactions) of (a) all or substantially all of the assets of Bank of Georgia or any of its Subsidiaries to any Person other than a New Holding Company; or (b) all or substantially all of the Capital Stock of any of Bank of Georgia's Subsidiaries to any Person other than a New Holding Company;

"**Auditors**" means Ernst & Young LLC or any internationally recognised firm of accountants approved by the Lender;

"**Change of Control**" occurs if any Person or Persons acting in concert (as defined in The City Code on Takeovers and mergers published by the UK Panel on Takeovers and Mergers) acquire or acquires more than 50.1 per cent. of the Voting Stock of the Borrower but shall not include a Permitted Reorganisation;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

"**Group**" means Bank of Georgia and its Subsidiaries, from time to time, taken as a whole or, following the creation of any New Holding Company, all New Holding Companies and their Subsidiaries, from time to time, taken as a whole;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which Bank of Georgia has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors;

"**Material Subsidiary**" means any Subsidiary of Bank of Georgia:

(i) which, for the most recent IFRS Fiscal Period, accounted for more than 5 per cent. of the consolidated revenues of the Group or more than 5 per cent. of the consolidated net income of the Group; or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 5 per cent. of the consolidated assets of the Group, each as set forth in the most recent available consolidated financial statements of the Group for such IFRS Fiscal Period (with effect from the date of issuance of such statements); or

(ii) to which are transferred substantially all of the assets and undertakings of a Subsidiary of Bank of Georgia which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

"**Merger Event**" means the consolidation of Bank of Georgia or any of its Subsidiaries with or into another Person, the merger of Bank of Georgia or any of its Subsidiaries with or into another Person or the amalgamation of Bank of Georgia or any of its Subsidiaries with or into another Person or the reorganisation or restructuring of Bank of Georgia or any of its Subsidiaries;

"**New Holding Company**" has the meaning given to it in the definition of "Permitted Reorganisation";

"**Permitted Reorganisation**" means (a) any transfer by Bank of Georgia of all or part of the Capital Stock of one or more of Bank of Georgia's Subsidiaries to a Person (a "**New Holding Company**") or (b) the exchange or contribution of all or part of Bank of Georgia's Capital Stock for Capital Stock of a New Holding Company where, in any such case, the New Holding Company has entered into a guarantee of Bank of Georgia's obligations under the Loan Agreement in the form attached as Schedule 5 thereto and such guarantee is effective in accordance with its terms at the time of such transfer, exchange or contribution;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Put Event**" means the occurrence of a Rating Downgrade within 90 days (which period shall be extended if and for so long as the long-term foreign currency debt or short-term foreign currency debt rating of Bank of Georgia is under publicly announced consideration for a possible downgrade by any Rating Agency) after the date of the occurrence of any Asset Sale, Change of Control or Merger Event, where such Rating Downgrade is primarily a result of such Asset Sale, Change of Control or Merger Event, as specified by the relevant Rating Agency;

"**Rating Agency**" means Moody's Investors Service ("**Moody's**") and its successors, Standard & Poor's Rating Services, a division of The McGraw-Hill Companies ("**Standard & Poor's**") and its successors, or Fitch Ratings ("**Fitch**") and its successors;

"**Rating Downgrade**" means:

(a) the withdrawal by two or more Rating Agencies of any of the long-term foreign currency debt or short-term foreign currency debt ratings of Bank of Georgia or the Funding Instruments; or

(b) the reduction by two or more Rating Agencies by one or more Rating Category of any of the long-term foreign currency debt or short-term foreign currency debt ratings of Bank of Georgia or the Funding Instruments,

provided that in relation to (a) or (b) above, if prior to the announcement of an Asset Sale or a Change of Control or a Merger Event, any rating of Bank of Georgia or the Funding Instruments has been reduced by one or more Rating Categories and the reduction is stated by the relevant Rating Agency to result solely from the factors underlying the withdrawal or reduction of the rating of any debt of Georgia, then, for the purposes of determining whether or not a Put Event has occurred, the ratings of Bank of Georgia and the Funding Instruments in existence at the time of the announcement of such Asset Sale, Change of Control or Merger Event shall be substituted, if different, for the ratings set out in (b) above;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) as to whom the first Person owns directly or indirectly more than 50.0% of the Capital Stock, Voting Stock or other right of ownership; and

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

(D) No other redemption

The Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Conditions 5(B) (*Mandatory Redemption*) and 5(C) (*Redemption at the Option of the Noteholders upon a Put Event*).

(E) Purchase

Bank of Georgia or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Notes held by the Issuer or any of its subsidiaries will continue to carry the right to attend and vote at meetings of Noteholders and will be taken into account in determining how many Notes are outstanding for the purposes of these Conditions and the provisions of the Trust Deed. Notes held by Bank of Georgia or any of its subsidiaries will cease to carry such rights and will not be taken into account, *inter alia*, for the purposes of Conditions 11 (*Meetings of Noteholders; Modification and Waiver; Substitution*) and 12 (*Enforcement*).

(F) Cancellation

The Loan Agreement provides that Bank of Georgia may deliver to the Issuer, at any time, Notes purchased by Bank of Georgia or any of its subsidiaries, pursuant to Condition 5(E) (*Purchase*) (provided the aggregate principal amount of such Notes is not less than U.S.$1,000,000) with instructions that the Issuer procure the cancellation of such Notes by the Registrar in accordance with the provisions of the Agency Agreement. The Loan Agreement provides that the outstanding amount thereunder shall be reduced *pro tanto* with effect from the date of cancellation by the Registrar of such Notes.

(G) Notice

In the event that the Notes are redeemed prior to their scheduled redemption, the Issuer shall notify the Noteholders, in accordance with Condition 14 (*Notices*), and the London Stock Exchange of the reason for, and the timing of, such early redemption.

6. PAYMENTS

(A) Principal

Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Noteholder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.

(B) Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Noteholder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City, and (in the case of interest payable on redemption) shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying and Transfer Agent.

(C) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) Payments on Business Days

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying and Transfer Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Noteholder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (a) the due date for a payment not being a business day or (b) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(E) Partial Payments

If a Paying and Transfer Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(F) Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) Record Date

Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Noteholder in the Register at the opening of business on the relevant Record Date.

(H) Payment to the Account

Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7 of the Agency Agreement require Bank of Georgia to make all payments of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, to be made pursuant to the Loan Agreement to the Account (less any amounts in respect of the Reserved Rights). Pursuant to the Charge (as defined in the Trust Deed), the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such Account in favour of the Trustee for the benefit of the Noteholders.

(I) Payment Obligations Limited

Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Conditions 5 (*Redemption; Purchase*) and 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts, Indemnity Amounts or other amounts, if any, actually received by or for the account of the Issuer from Bank of Georgia pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights).

(J) Currency Other Than U.S. Dollars

In respect of the Issuer's obligations under Conditions 4 (*Interest*), 5 (*Redemption; Purchase*) and 7 (*Taxation*), and subject to the following sentence, if the Issuer receives any amount under the Loan Agreement in a currency other than U.S. Dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. Dollars in accordance with customary banking practice at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is Lari and the second currency is U.S. dollars (or vice versa), by the NBG at 3.00 p.m. (Tbilisi time) on such date for the purchase of the first currency with the second currency. If the Issuer receives any payment from Bank of Georgia pursuant to Clause 17.2 (*Currency Indemnity*) of the Loan Agreement with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 6 (*Payments*).

7. TAXATION

All payments by or on behalf of the Issuer in respect of the Notes shall be made in full without set-off or counterclaim, free and clear of, and without deduction for or on account of, any present or future taxes, levies, duties, imposts or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto) no matter how they are levied or determined ("**Tax**") imposed by any taxing authority of or in, or having authority to tax in, Georgia, The Netherlands or any Qualifying Jurisdiction (as defined in the Loan Agreement), in which the Issuer or any successor thereto is resident for tax purposes (each, a "**Taxing Authority**"), unless such deduction or withholding of Tax is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay such additional amounts, however, will not apply to any:

(i) Tax that would not have been imposed but for the existence of any present or former connection between such Noteholder and the relevant Taxing Authority other than the mere receipt of such payment or the ownership or holding of such Note;

(ii) a Noteholder who is able to avoid Tax by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority;

(iii) Tax that would not have been imposed but for the presentation by the Noteholder for payment on a date more than 30 days after the Relevant Date (as defined below) except to the extent that such additional amounts would have been payable if presentation of the Note Certificate for payment took place on such thirtieth day;

(iv) Tax required to be deducted or withheld by any Paying and Transfer Agent from a payment on a Note, if such payment can be made without deduction or withholding by any other Paying and Transfer Agent in a Member State of the European Union; and

(v) Tax imposed on a payment to an individual where such Tax are required to be withheld or deducted pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notwithstanding the foregoing provisions, the Issuer shall only make such additional payments to the Noteholders pursuant to this Condition 7 (Taxation) to the extent and at such time as it shall have actually received and retained an equivalent amount from Bank of Georgia under the Loan Agreement by way of Additional Amounts or Indemnity Amounts or otherwise.

To the extent that the Issuer does not receive from Bank of Georgia such equivalent amount in full, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received and retained (net of tax and any other deductions whatsoever) by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in London by the

Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Loan Agreement.

8. PRESCRIPTION

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

9. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Principal Paying and Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses costs, taxes and duties incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

10. TRUSTEE AND AGENTS

Under separate agreement between Bank of Georgia and the Trustee, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer or Bank of Georgia and any entity relating to the Issuer or Bank of Georgia without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or in respect of the Trust Deed or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by Bank of Georgia in respect of the Loan Agreement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between Bank of Georgia and the Agents, the Agents are entitled to be indemnified and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying and transfer agent or registrar and additional or successor paying and transfer agents, *provided that* the Issuer shall at all times maintain (a) a principal paying and transfer agent and a registrar; (b) a paying and transfer agent in London; and (c) a paying and transfer agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Relevant Event has occurred.

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the London Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer or Bank of Georgia.

The Notes provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Noteholders to take action directly.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or a Rating Downgrade, or any event which could lead to the occurrence of a Change of Control or a Rating Downgrade, has occurred and will not be responsible or liable to the Noteholders for any loss arising from any failure by it to do so.

11. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; SUBSTITUTION

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including to propose the modification or abrogation of any provision of the Loan Agreement, these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes, subject to its being indemnified and/or secured to its satisfaction. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present being or representing Noteholders whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals *inter alia*: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment; (iv) to change the amount of principal and interest payable under the Loan Agreement; (v) to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed (other than as permitted under Clause 16.4 (*Substitution*) of the Trust Deed); (vi) to change the currency of payments under the Notes; (vii) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (viii) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement; (ix) to change any date fixed for payment of principal or interest under the Loan Agreement; (x) to alter the method of calculating the amount of any payment under the Loan Agreement; or (xi) to change the currency of payment under the Loan Agreement or, without prejudice to the rights under Condition 11(B) (*Modification and Waiver*) below, change the definition of "**Event of Default**" under the Loan Agreement (each, a "**Reserved Matter**"), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and Waiver

The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights or the Loan Agreement (other than, in each case, in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by Bank of Georgia, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, in the event of such substitution, the London Stock Exchange will be informed of such substitution, a supplemental prospectus will be produced and will be made publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. ENFORCEMENT

At any time after an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce the rights of the Noteholders under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Noteholders whose Notes constitute at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails or neglects to do so within a reasonable time and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction declare or require the Issuer to declare all amounts payable under the Loan Agreement by Bank of Georgia to be due and payable.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding. Following any partial repayment of the Loan following an Event of Default, the Notes will be partially redeemed or repaid on a *pro rata* basis.

The Trust Deed also provides that, in the case of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction enforce or require the Issuer to enforce the Note Security created in the Trust Deed by the Issuer in favour of the Noteholders.

In addition, if the Trustee were to enforce the security under the Trust Deed following an Event of Default or Relevant Event, the Trustee will be entitled to payments of principal and interest under the Loan Agreement in the name of the Issuer or in its own name. As a result, benefits under the Treaty between the Government of the Georgia and the Government of The Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, dated 21 March 2002 (the "**Double Tax Treaty**") may cease to be applicable to payments under the Loan Agreement and they may become subject to withholding taxation in Georgia unless the Trustee, without having an obligation to do so (or without having any obligation to ensure that it receives payments gross), meets all the criteria for the exemption under the Double Tax Treaty or other double tax treaty to which Georgia is a party. If this were to occur, Bank of Georgia would not be obliged to pay additional amounts on account of Georgian taxes withheld and, as a result, the Trustee (on behalf of the Noteholders) would only be entitled to receive an amount net of such taxes.

13. FURTHER ISSUES

The Issuer may, from time to time, with the consent of Bank of Georgia and without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to consolidate and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will either enter into an agreement to amend or supplement the Loan Agreement with Bank of Georgia or enter into a new agreement, in either case with the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Note Security in relation to the Issuer's rights under the original Loan Agreement which will, together with the Note Security referred to in the Conditions, secure both the Notes and such further Notes.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given 10 days after being deposited in the post. In addition, so long as the Notes are listed on the London Stock Exchange and the rules of that Exchange so require, notices will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe or as otherwise required by any exchange on which the Notes are listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the London Stock Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any provision of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. GOVERNING LAW; JURISDICTION

(A) Governing Law

The Notes and the Trust Deed and all matters arising from or connected with the Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(B) Jurisdiction

The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificate.

The Notes will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Global Certificate will become exchangeable in whole, but not in part, for Definitive Certificates if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) the Issuer fails to pay an amount in respect of the Notes within five days of the date on which such amount became due and payable under the Conditions; or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 (*Taxation*) of the Terms and Conditions of the Notes which would not be suffered were the Notes evidenced by Definitive Certificates and a certificate to such effect signed by two authorised signatories of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) and (b) above) the holder of the Global Certificate may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Certificate for Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder of the Global Certificate or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the Notes are admitted to trading on the London Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the

Global Certificate. Payment while Notes are represented by a Global Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or an Alternative Clearing System as appropriate.

Meetings: The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes and, in any such meeting as having one vote in respect of each U.S.$1,000 in principal amount of Notes for which the Global Certificate is exchangeable.

TAXATION

The following is a general description of certain Georgian and Dutch tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Georgia

Withholding under the Loan Agreement

Generally, the Georgian Tax Code provides that income received by a non-resident person is subject to withholding tax when such income is not attributable to the permanent establishment of such non-resident person, and which income includes, *inter alia*, interest earned by a non-resident entity from a loan granted to a resident (Georgian) entity. Generally, unless otherwise exempt pursuant to an effective international treaty that has been ratified by the Parliament of Georgia, a resident entity is required to withhold income tax of a non-resident entity on payments of interest under a loan at the rate of 10.0% of the amount of interest paid.

Georgia maintains a Double Tax Treaty with The Netherlands, which stipulates that income received in the form of interest on a loan is subject to taxation only by the country of residency of the recipient of the income. Accordingly, income received by a resident of The Netherlands on a loan granted to a Georgian resident entity shall not be subject to withholding tax. However, the benefit of the Double Tax Treaty is available only to the residents of The Netherlands. However, the Ministry of Finance of Georgia has issued special regulations imposing special joint filing requirements on a resident entity which require tax filings to be co-signed by the respective recipient of income seeking application of the benefit of the Double Tax Treaty, which includes an obligation to obtain and deliver to the respective tax authority a certificate from the tax authorities of The Netherlands confirming residency status of the recipient of payments of the interest under the respective loan agreement. Accordingly, the Borrower may be subject to an additional tax burden if (i) the Issuer as lender, fails to deliver the respective residency certificate or (ii) the Loan Agreement is enforced and/or interest is received by someone other than the Issuer, as lender, as a result of foreclosure, assignment or other transfer thereof.

Under Article 11 of the Double Tax Treaty, interest income from Georgian sources paid to the Issuer, a resident of The Netherlands, shall be taxable only in The Netherlands and shall not be subject to income taxation in Georgia, provided that the Issuer is the "beneficial owner" of the interest and is "subject to tax" in respect of such interest in The Netherlands. The exemption will not be available under the Double Tax Treaty if the Issuer carries on business through a permanent establishment located in Georgia and the interest paid to the Issuer is effectively connected with such permanent establishment. The concept of beneficial ownership and its application in the context of double tax treaties of Georgia is not developed either in Georgia's tax law or practice. As a consequence, different interpretations are possible and the tax authorities in Georgia may take a position that the Issuer is not the beneficial owner of the interest income received from the Borrower under the Loan Agreement and thus deny the benefits of the Double Tax Treaty to the Issuer.

In addition, the applicability of tax relief under the Double Tax Treaty is limited in case of a special relationship between the Georgian resident payer of interest and the Georgian resident beneficial owner of interest or between both of them and some other person, if the amount of interest, having regard to the underlying debt obligation for which it is paid, exceeds the amount that would have been agreed upon by the payer and the beneficial owner in the absence of such special relationship. In such case, tax relief shall be granted only with respect to the amount that would have been agreed upon by the payer and the beneficial owner in the absence of such special relationship and the remaining part of the interest payments shall remain taxable according to the Laws of Georgia.

Enforceability of Tax Gross up Clauses under the Loan Agreement

Generally, the Tax Code of Georgia contains neither a prohibition, nor express permissibility provision covering this issue. In practice, however, such gross up clauses are widely respected by the tax authorities. Notwithstanding the foregoing, absent clear statutory guidance on this matter, the practices adopted by the tax authorities are often susceptible to sudden and adverse changes.

Taxation of Non-resident Noteholders - General

It is unlikely that the current structure of the transaction, including the circulation of the Notes, absent a sale of Notes on the territory of Georgia or to Georgian tax residents, will trigger any Georgian tax obligations on the part of the Noteholders. However, as the Tax Code of Georgia fails to define the place of sale (supply) of the Notes for the purposes of determining profit/income tax exposure there is a risk that such interpretation may be susceptible to varying interpretations by the tax authorities.

The novelty of the introduction of the Notes to Georgian market, as well as ambiguities with respect to application of the respective provisions of the Tax Code, combined with the absence of established practices, may result in varying interpretations of the respective provisions of the Tax Code by the tax authorities. In addition, tax authorities have been known to apply such varying interpretations to the respective provisions of the Tax Code to cope with impracticability or unenforceability of certain provisions with respect to non-resident taxpayers, including attempts aimed at shifting tax burdens to local tax residents, which at times would include imposition of withholding and reverse change VAT mechanisms.

Subject to the foregoing, no withholding tax implications should exist for the purposes of sale scenarios, discussed below.

Taxation of sale of Notes to Georgian resident taxpayer by non-resident Legal Entities

Legal entities in Georgia are subject to 20.0% profit tax, with the tax base being calculated after permitted deductions. The same rate may be applicable to non-resident entities when such entity sells Notes to a Georgian resident/on the territory of Georgia and will be assessed onto a difference between the initial purchase and subsequent sale price. Such sale triggers a tax exposure and non-resident entities will be under obligation to properly report and pay such profit tax to Georgian tax authorities. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may lead to adopting peculiar, at times rather aggressive interpretations by the tax authorities, including, *inter alia*, assessment of 10.0% withholding tax. This obligation may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of sale of Notes to Georgian resident taxpayer by non-resident Individuals (Physical persons)

Individuals in Georgia are subject to 12.0% income tax, with the tax base being calculated after permitted deductions. The same rate may be applicable to non-resident individuals when such individual sells Notes to a Georgian resident/on the territory of Georgia and will be assessed based upon the difference between the initial purchases and subsequent sale price. Such sale triggers a tax exposure and a non-resident individual will be under obligation to properly report and pay such income tax to Georgian tax authorities. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may lead to adopting peculiar, at times rather aggressive interpretations by the tax authorities, including, *inter alia*, assessment of 10.0% withholding tax. This obligation may be affected by a double tax treaty between Georgia and the country of residency of the seller individual.

Taxation of sale of Notes by a Georgian resident taxpayer to a non-resident entity or individual

In the event of sale of Notes by a Georgian resident to a non-resident individual or legal entity, no tax burden will be imposed on the buyer of the Notes under these circumstances.

Taxation of Resident Noteholders - General

The residents of Georgia will be subject to all requirements of the Tax Code of Georgia if participating in the circulation of Notes.

Taxation of purchase of Notes by Georgian resident taxpayers

Generally, the Tax Code of Georgia would impose no tax burden on the buyer of the Notes, whether legal entity or individual, if such buyer is a resident of Georgia. However, the tax authorities may attempt to interpret certain provisions of the Tax Code in a way to make sure that the selling non-resident entity or individuals complies with the respective tax obligations, including, *inter alia*, assessment of 10.0% withholding tax.

Consequently, subsequent sale of the Notes by Georgian resident tax payers will be subject to 20.0% profit tax for legal entities and 12.0% income tax for individuals, with the tax base being calculated as difference between acquisition and sale prices. However, tax authorities might also adopt a view that such taxes are to be assessed on the full amount of the respective sale price.

Certain exemptions from the 12.0% income tax may be available to individual Noteholders if such individuals maintain ownership of such Notes for more than two calendar years, although varying interpretations may preclude applicability of such exemption.

Taxation of Interest

With respect to the Interest payable by the Issuer under the Notes, Georgian Tax Code implications will exist only insofar such Interest is received by a Georgian resident and even then, for such Georgian residents only. The same tax rates, as noted above, will be applicable accordingly. However, once again, the tax authorities may adopt different views on this matter.

In addition, the provisions of the Double Tax Treaty should be applicable if payments of the Interest are made by the Issuer to a Georgian resident.

Value Added Tax

Sale (supply) of the Notes on the territory of Georgia should be exempt from the Value Added Tax. However, generally varying interpretation by the respective tax authorities exist with respect to the applicability of the value added tax to sale of financial instruments and this point remains subject to further clarification by tax authorities.

Other Considerations

In addition to *Substance over Form* principle, discussed above, the Tax Code of Georgia expressly provides for ability of the tax inspection to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements.

The Netherlands

The comments below are of a general nature based on taxation law and practice in The Netherlands as of the date of this Prospectus and are subject to any changes therein. They relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and so should be treated with appropriate caution. In particular, it does not take into consideration any tax implications that may arise on a substitution of the Issuer. Prospective investors should consult their own professional advisors concerning the possible tax consequences of purchasing, holding and/or selling Notes and receiving payments of interest, principal and/or other amounts under the Notes under the applicable laws of their country of citizenship, residence or domicile.

Under the existing laws of The Netherlands:

(a) all payments of interest and principal by the Issuer under the Notes can be made free of withholding or deduction for, or on account of, any taxes of whatsoever nature imposed, levied, withheld, or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein;

(b) a holder of a Note who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Dutch taxation on such income or capital gain, unless:

(i) the holder is, or is deemed to be, resident in The Netherlands or, where the holder is an individual, such holder has elected to be treated as a resident of The Netherlands; or

(ii) such income or gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment ("*vaste inrichting*") or a permanent representative ("*vaste vertegenwoordiger*") in The Netherlands; or

(iii) the holder is an individual and such income or gain qualifies as income from activities that exceed normal active portfolio management ("*normaal vermogensbeheer*") or as benefits from other activities ("*resultaat uit overige werkzaamheden*") in The Netherlands;

(c) Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder unless:

(i) the holder is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of the gift or death, is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(iii) such Note is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment or a permanent representative in The Netherlands;

(d) there is no Dutch registration tax, stamp duty or any other similar tax or duty payable in The Netherlands, other than court fees, in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes;

(e) there is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a

Note, provided that Dutch value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Dutch value added tax purposes such services are rendered, or are deemed to be rendered, in The Netherlands and an exemption from Dutch value added tax does not apply with respect to such services; and

(f) a holder of a Note will not be treated as a resident of The Netherlands by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Notes.

European Union Directive on Taxation on Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 EU member states are required to provide to the tax authorities of other EU member states details of payments of interest and other similar income paid by a person to an individual in another EU member state, except that Austria, Belgium and Luxembourg impose a withholding system for a transitional period (unless during such period they elect otherwise). A number of third countries and territories have adopted similar measures.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Merrill Lynch International (the "**Lead Manager**") has, pursuant to the terms and conditions set forth in a subscription agreement dated 6 February 2007 (the "**Subscription Agreement**"), agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100.0% of the principal amount of the Notes. Bank of Georgia has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes (including a management and underwriting commission of 1.2% of the aggregate principal amount of the Notes) and to reimburse the Lead Manager, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Lead Manager is entitled to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S".

United Kingdom

The Lead Manager has represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Georgia

The Notes may not be offered or sold in the territory of Georgia in a public offering without a prior or simultaneous delivery of a final prospectus approved by the National Securities Commission of Georgia in accordance with the Law of Georgia on Securities Markets. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer to at least 100 persons or to an unspecified number of persons. "Securities" are defined as transferable financial instruments and rights that may be offered to the public in the form of equity securities, debt securities, any security convertible into securities or which carries the right to subscribe for or purchase such securities, investment contracts, and other instruments and rights connected with securities. Accordingly, in Georgia, the Notes described in this Prospectus may not, are not and will not be offered, distributed, sold, transferred or delivered, directly or indirectly, to any person other than to a natural person or a legal entity sophisticated in the theory and practice of investing and falling within the definition of "sophisticated investor" as set out in Article 2.8 of the Law of Georgia on Securities Markets and only after the National Securities Commission of Georgia has adopted respective rules regulating such offers in accordance with Article 3.6 of the Law of Georgia on Securities Markets. In addition, the Notes may be in theory sold in Georgia under a private placement exemption if they are offered to less than 100 investors. However, the National Securities Commission of Georgia has not yet approved any specific rules regulating private placements of securities in the territory of Georgia.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;

(ii) where no consideration is given for the transfer; or

(iii) by operation of law.

Hong Kong

The Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Italy

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, the Lead Manager represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

The Lead Manager has represented that it will not offer, sell or deliver any Notes or distribute copies of the Prospectus or any other document relating to the Notes in the Republic of Italy except to "professional investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 ("**Regulation No. 11522**"), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 ("**Decree No. 58**"), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999 applies.

Any such offer, sale or delivery of Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 ("**Decree No. 385**"), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;

(ii) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy and in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In any event, and notwithstanding any exemption available under Italian law from the restrictions on the offer of securities to the public, the Notes will not be sold, either on the primary market or on the secondary market, to individuals residing in the Republic of Italy.

General

No action has been or will be taken in any jurisdiction by the Issuer or Bank of Georgia that would, or is intended to, permit a public offering of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, Bank of Georgia and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material and to obtain any consent, approval or permission required by them for the purchase, offer, sale or delivery by them of any Notes under the law and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries, in all cases at their own expense, and none of the Issuer, Bank of Georgia or the Lead Manager shall have responsibility therefore. In accordance with the above, any Notes purchased by any person which it wishes to offer for sale or resale may not be offered in any jurisdiction in circumstances which would result in the Issuer or Bank of Georgia being obliged to register any further prospectus or corresponding document relating to the Notes in such jurisdiction.

The Lead Manager and its affiliates have engaged in and performed, and may from time to time engage in and perform, other lending, investment banking, commercial dealing and advisory services for Bank of Georgia for which they may receive customary fees and commissions.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with Common Code 028375662 and ISIN XS0283756624.

2. The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Regulated Market will take effect on 9 February 2007. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working date after the day of the transaction.

3. Bank of Georgia and the Issuer have obtained all necessary consents, approvals and authorisations in Georgia and The Netherlands in connection with the Loan, and the issue and performance of the Notes. The issue of the Notes, and the execution of the Loan Agreement and the other documents to be entered into by the Issuer in relation to the issue of the Notes have been authorised by the Board of Managing Directors of the Issuer and the General Meeting of Shareholders of the Issuer on 2 February 2007 and by the Supervisory Board of Bank of Georgia on 9 January 2007 and 2 February 2007.

4. No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of The Netherlands or Georgia for the maintenance of and performance of its obligations under the Loan and for the issue of and performance of its obligations under the Notes.

5. There has been no significant change in the financial or trading position of Bank of Georgia since 30 September 2006 or of the Issuer since the Issuer's date of incorporation, and no material adverse change in the financial position or prospects of Bank of Georgia since 31 December 2005 or of the Issuer since the Issuer's date of incorporation.

6. Except as disclosed in "Description of Business – Litigation", neither Bank of Georgia nor any of its subsidiaries is, or has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Bank of Georgia is aware) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of Bank of Georgia or the Group.

7. The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had since its incorporation, a significant effect on the financial position or profitability of the Issuer.

8. The Annual Financial Statements have been audited by Ernst & Young LLC (registered to carry out audit work by the Audit Activity Committee of the Parliament of Georgia) in accordance with International Standards on Auditing) and Ernst & Young LLC rendered an unqualified audit report on such accounts of Bank of Georgia for each of these years. Ernst & Young issued a review report in accordance with International Standards on Review Engagements in respect of the Interim Financial Statements and related notes as of 30 September 2006 and for the nine month period then ended which are included in this Prospectus. The auditors of Bank of Georgia have no material interest in Bank of Georgia or the Issuer.

9. Neither Bank of Georgia nor the Issuer has entered into contracts outside the ordinary course of business and which could result in Bank of Georgia, its subsidiaries or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or Bank of Georgia's ability to meet its obligations under the Loan Agreement.

10. For so long as the Notes are outstanding, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected in electronic format at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted):

    (a) this Prospectus along with any supplement to this Prospectus;

    (b) the Articles of Incorporation of the Issuer;

    (c) the charter of Bank of Georgia;

    (d) the Audited Financial Statements together with the auditors' reports;

    (e) the Interim Financial Statements together with the auditors' review report;

    (f) the Loan Agreement; and

    (g) the Trust Deed and the Agency Agreement.

11. The loan to value ratio of the Loan is 100.0%.

INDEX TO FINANCIAL STATEMENTS

Bank of Georgia Group
Consolidated Financial Statements

Years ended December 31, 2005, 2004 and 2003
Together with Report of Independent Auditors

CONTENTS

REPORT OF INDEPENDENT AUDITORS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and the Board of Directors of JSC Bank of Georgia –

We have audited the accompanying consolidated balance sheets of JSC Bank of Georgia (the "Bank") and its subsidiaries (together the "Group") as of December 31, 2005, 2004, 2003 and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005, 2004, 2003 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

March 15, 2006
Tbilisi, Georgia

CONSOLIDATED BALANCE SHEETS

As of December 31, 2005, 2004 and 2003

(Thousands of Georgian Lari)

	Notes	2005	2004	2003
Assets				
Cash and cash equivalents	5	57,236	102,747	43,626
Amounts due from credit institutions	6	33,398	25,585	16,117
Loans to customers, net	7	297,376	169,868	141,780
Net investment in lease	8	4,314	598	–
Investment securities:				
- available-for-sale	9	8,327	19,628	1,742
- held-to-maturity	9	2,280	–	–
Property and equipment, net	10	35,815	27,159	20,024
Intangible assets, net	11	7,685	6,286	2,025
Income tax assets	12	2,570	3,407	–
Prepayments		455	157	–
Other assets	14	11,114	7,737	4,808
Total assets		**460,570**	**363,172**	**230,122**
Liabilities				
Amounts owed to credit institutions	15	78,873	48,334	50,237
Amounts owed to customers	16	269,952	252,129	123,573
Debt securities issued	17	1,143	–	
Income tax liabilities	12	2,087	203	771
Provisions	13	975	971	472
Other liabilities	14	16,078	6,075	428
Total liabilities		**369,108**	**307,712**	**175,481**
Equity	18			
Share capital		14,729	11,273	9,856
Share premium		32,922	13,376	4,530
Treasury shares		(81)	(73)	–
Retained earnings		37,427	23,911	24,930
Other reserves		5,369	5,492	15,325
Total equity attributable to shareholders		**90,366**	**53,979**	**54,641**
Minority interest		1,096	1,481	–
Total equity		**91,462**	**55,460**	**54,641**
Total liabilities and equity		**460,570**	**363,172**	**230,122**

Signed and authorized for release on behalf of the Management Board of JSC Bank of Georgia:

Vladimer Gurgenidze General Director

Irakli Gilauri Deputy General Director

March 15, 2006

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2005, 2004 and 2003

(Thousands of Georgian Lari)

	Notes	2005	2004	2003
Interest income				
Loans to customers		47,247	31,432	30,004
Debt securities owned		2,664	1,654	2,295
Amounts due from credit institutions		1,525	672	–
Net investment in lease		396	–	–
		51,832	**33,758**	**32,299**
Interest expense				
Amounts owed to customers		9,162	6,819	5,347
Amounts owed to credit institutions		3,893	3,100	2,533
Debt securities issued		26	–	–
		13,081	**9,919**	**7,880**
Net interest income		**38,751**	**23,839**	**24,419**
Impairment of interest earning assets	13	6,228	20,511	4,105
Net interest income after impairment of interest earning assets		**32,523**	**3,328**	**20,314**
Fees and commissions income		16,753	13,059	11,751
Fees and commissions expense		(2,385)	(2,745)	(2,895)
Net fees and commissions income	20	**14,368**	**10,314**	**8,856**
Gains less losses from foreign currencies:				
- dealing		5,379	5,631	4,640
- translation differences		1,128	(783)	(772)
Net insurance premiums earned		4,028	–	–
Other operating income		566	152	42
Other non-interest income		**11,101**	**5,000**	**3,910**
Salaries and other employee benefits	21	23,219	12,896	9,060
Administrative expenses	21	10,883	9,372	8,006
Depreciation, amortization and impairment	10, 11	4,230	2,609	2,231
Net insurance claims incurred		786	–	–
Impairment of other assets and provisions	13	280	1,559	1,493
Other operating expenses		1,860	336	705
Other non-interest expense		**41,257**	**26,772**	**21,495**
Income (loss) before income tax expense		**16,735**	**(8,130)**	**11,585**
Income tax expense (benefit)	12	3,108	(781)	2,431
Net income (loss) for the year		**13,627**	**(7,349)**	**9,154**
Attributable to:				
- shareholders of the Group		13,838	(7,349)	9,154
- minority interest		(211)	–	–
		13,627	**(7,349)**	**9,154**
Earnings (loss) per share:	18			
- basic		1.138	(0.778)	0.929
- diluted		1.138	(0.778)	0.929

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2005, 2004 and 2003

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	***Share premium***	***Treasury shares***	***Retained earnings***	***Other reserves***	***Total***	***Minority interest***	***Total equity***
December 31, 2002	**9,856**	**4,530**	**–**	**17,879**	**14,365**	**46,630**	**–**	**46,630**
Revaluation, net of tax	–	–	–	–	1,007	1,007	–	1,007
Total income and expense recognised directly in equity	–	–	–	–	1,007	1,007	–	1,007
Net income	–	–	–	9,154	–	9,154	–	9,154
Total income and expense for the year	**–**	**–**	**–**	**9,154**	**1,007**	**10,161**	**–**	**10,161**
Transfer	–	–	–	47	(47)	–	–	–
Dividends – ordinary shares	–	–	–	(2,150)	–	(2,150)	–	(2,150)
December 31, 2003	**9,856**	**4,530**	**–**	**24,930**	**15,325**	**54,641**	**–**	**54,641**
Depreciation of revaluation reserve, net of tax	–	–	–	112	(112)	–	–	–
Total income and expense recognised directly in equity	–	–	–	112	(112)	–	–	–
Net loss for the year	–	–	–	(7,349)	–	(7,349)	–	(7,349)
Total income and expense for the year	**–**	**–**	**–**	**(7,237)**	**(112)**	**(7,349)**	**–**	**(7,349)**
Issuance of share capital (Note 18)	1,417	6,763	–	–	–	8,180	–	8,180
Dividends declared (Note 18)	–	–	–	(2,500)	–	(2,500)	–	(2,500)
Purchase of treasury shares (Note 18)	–	(4,530)	(1,366)	(1,003)	–	(6,899)	–	(6,899)
Sale of treasury shares (Note 18)	–	6,830	1,366	–	–	8,196	–	8,196
Minority interest through acquisition	–	–	–	–	–	–	1,481	1,481
Purchase of the treasury shares by subsidiary	–	(217)	(73)	–	–	(290)	–	(290)
Transfers	–	–	–	9,721	(9,721)	–	–	–
December 31, 2004	**11,273**	**13,376**	**(73)**	**23,911**	**5,492**	**53,979**	**1,481**	**55,460**
Portion of the re-valued asset sold	–	–	–	11	(11)	–	–	–
Depreciation of revaluation reserve, net of tax	–	–	–	112	(112)	–	–	–
Total income and expense recognised directly in equity	**–**	**–**	**–**	**123**	**(123)**	**–**	**–**	**–**
Net income for the year	–	–	–	13,838	–	13,838	(211)	13,627
Total income and expense for the year	**–**	**–**	**–**	**13,961**	**(123)**	**13,838**	**(211)**	**13,627**
Issuance of share capital (Note 18)	3,456	19,629	–	–	–	23,085	–	23,085
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	–	–	–	–	365	365
Acquisition of minority interests in existing subsidiaries	–	–	–	(445)	–	(445)	(539)	(984)
Purchase of the treasury shares by subsidiary	–	(83)	(8)	–	–	(91)	–	(91)
December 31, 2005	**14,729**	**32,922**	**(81)**	**37,427**	**5,369**	**90,366**	**1,096**	**91,462**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2005, 2004 and 2003

(Thousands of Georgian Lari)

	Notes	*2005*	*2004*	*2003*
Cash flows from operating activities				
Interest received		48,047	33,600	32,891
Interest paid		(11,424)	(10,485)	(7,737)
Fees and commissions received		16,753	13,059	11,751
Fees and commissions paid		(2,385)	(2,745)	(2,895)
Recoveries of assets previously written off		2,691	739	2,054
Insurance premiums received		4,715	–	–
Insurance claims paid		(429)	–	–
Realized gains less losses from dealing in foreign currencies		5,379	5,631	4,640
Other operating income received		566	152	42
Salaries and benefits paid		(23,219)	(13,258)	(9,060)
Administrative and other operating expenses		(12,743)	(9,708)	(8,711)
Cash flows from operating activities before changes in operating assets and liabilities		**27,951**	**16,985**	**22,975**
Net (increase)/decrease in operating assets				
Amounts due from credit institutions		(7,793)	(11,068)	(2,774)
Loans to customers		(125,919)	(47,144)	(49,408)
Net investment in lease		(3,714)	–	–
Other assets		(2,775)	(2,923)	(1,857)
Net increase / (decrease) in operating liabilities				
Amounts owed to credit institutions		26,870	2,544	17,260
Amounts owed to customers		12,269	112,562	25,402
Other liabilities		8,905	3,038	(443)
Net cash flows from operating activities before income tax		**(64,206)**	**73,994**	**11,155**
Income tax paid		(387)	(2,587)	(1,961)
Net cash (used in)/from operating activities		**(64,593)**	**71,407**	**9,194**
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	22	(735)	7,066	–
Purchase of (proceeds from sale of) investment securities		9,021	(9,953)	7,712
Purchase of investments in associates		(109)	–	(461)
Sale of property and intangible assets		437	213	156
Purchase of property and intangible assets		(12,997)	(6,319)	(5,353)
Net cash (used in)/ from investing activities		**(4,383)**	**(8,993)**	**2,054**
Cash flows from financing activities				
Proceeds from issue of share capital		21,641	–	–
Purchase of treasury shares		(91)	(6,898)	
Purchase of additional interest by the minority shareholder, net of cash acquired		365	–	–
Purchase of additional interest in existing subsidiaries, net of cash acquired		(550)	–	–
Sale of treasury shares		–	8,196	–
Proceeds from debt securities issued		1,143	–	–
Dividends paid to shareholders of the Bank		(9)	(2,376)	(2,125)
Net cash (used in)/ from financing activities		**22,499**	**(1,078)**	**(2,125)**
Effect of exchange rates changes on cash and cash equivalents		966	(2,215)	636
Net increase/(decrease) in cash and cash equivalents		**(45,511)**	**59,121**	**9,759**
Cash and cash equivalents, beginning		**102,747**	**43,626**	**33,867**
Cash and cash equivalents, ending	5	**57,236**	**102,747**	**43,626**

The accompanying notes are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia (the "Bank") is a joint stock company, formed on the basis of the former State Bank Binsotsbanki on October 21, 1994, under the laws of Georgia. The Bank operates under a general banking licence issued by the National Bank of Georgia ("NBG") on December 15, 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia. However, activities of these companies, such as leasing, insurance, brokerage and processing services, are very minor and immaterial compared to the primary activity of the Group. 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.

Primary activity of the Bank and the Group is accepting deposits from the public and extending credit, transfering payments in Georgia and abroad and exchanging currencies. Its main office is in Tbilisi and it has 19 branches in Tbilisi, Batumi, Kutaisi, Gori, Poti, Rustavi, Gurjaani, and 31 operating outlets. The Bank's registered legal address is Pushkin Street 3, Tbilisi 0105, Georgia.

As of December 31, the following shareholders owned more than 5% of the outstanding shares. Other shareholders owned less than 5% individually of the outstanding shares.

Shareholder	***2005, %***	***2004, %***	***2003, %***
EBRD	12%	14%	16%
Victor Gelovani	12%	13%	13%
Bank Austria Creditanstalt	10%	–	–
Firebird Avrora Fund	9%	5%	–
Firebird Republics Fund	9%	5%	–
East Capital Holding	6%	–	–
East Capital Bering Russia Fund	5%	–	–
Koncentra Limited	5%	–	–
Firebird Global Master Fund	4%	3%	–
DEG	–	11%	13%
JSC TBC - Bank	–	11%	11%
Other	28%	38%	47%
Total	**100%**	**100%**	**100%**

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its subsidiaries are required to maintain their records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. These consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets and liabilities held for trading, as well as available-for-sale securities and revaluation of property.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2005

Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Euro Pace	100.0%	Georgia	26/07/2004	Insurance	18/10/2005
JSC Georgian Card	55.4%	Georgia	25/11/1996	Card processing	20/10/2004
JSC Galt & Taggart	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	75.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC British – Caucasus Insurance Company	100.0%	Georgia	11/08/2001	Insurance	30/12/2004

2004

Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC TbiluniversalBank	100.0%	Georgia	19/02/1994	Banking	31/12/2004
JSC Georgian Card	50.3%	Georgia	25/11/1996	Card processing	20/10/2004
JSC Galt & Taggart	53.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	60.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC British – Caucasus Insurance Company	88.0%	Georgia	11/08/2001	Insurance	30/12/2004

During 2005 the Group liquidated JSC TbiluniversalBank and merged its operations with the Bank. Also, during 2005, the Group increased its interest in all of its existing subsidiaries and acquired another subsidiary – an insurance company JSC Euro Pace (Note 22).

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
IAS 24 (revised) "Related Party Disclosures";
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure"; and
IAS 39 (revised) "Financial Instruments: Recognition and Measurement";
IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004).

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 19 (amended 2004) "Employee Benefits";
IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Reclassifications

The following reclassifications were made to 2004 balances to conform to the 2005 presentation requirements:

Caption	*As previously reported*	*As reclassified*	*Comment*
HTM Securities	19,569	–	Reclassification of T-Bills from HTM securities to AFS securities in 2005
AFS Securities	59	19,628	Reclassification of T-Bills from HTM securities to AFS securities in 2005
Other operating income	–	152	Reclassification of Other operating Income from Fee and commission income
Fee and commission income	13,212	13,059	Reclassification of Other operating Income from Fee and commission income
Net investment in lease	–	598	Reclassification of this amount to present finance lease receivable as a separate line this year as the amount was immaterial last year for separate presentation.
Other assets	6,827	7,149	Reclassification of this amount to present finance lease receivable as a separate line this year as the amount was immaterial last year for separate presentation.
Prepayments	1,077	157	Reclassification of advances paid for international money transfers from prepayments to other assets.
Administrative expenses	8,327	9,372	Reclassification of legal and consulting expenses from Fee and commission expense, recruitment expenses from salaries and benefits and insurance expenses from other operating expenses
Gains less losses from foreign currencies – dealing	5,058	5,631	Reclassification of realized dealing gains from translation differences
Gains less losses from foreign currencies – translation differences	(210)	(783)	Reclassification of realized dealing gains from translation differences
Fee and commission expense	2,534	2,745	Reclassification of legal and consulting expenses from Fee and commission expense and reclassification of guarantee and letter of credit fees from other operating expenses
Salaries and other employee benefits	13,258	12,896	Reclassification of recruitment expenses from salaries and benefits to administrative expenses
Other operating expenses	1,231	336	Reclassification of guarantee and letter of credit fees to fees and commission expenses and insurance costs to administrative expenses

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Reclassifications (continued)

The following reclassifications were made to 2003 balances to conform to the 2005 presentation requirements:

Caption	*As previously reported*	*As reclassified*	*Comment*
HTM Securities	1,683	–	Reclassification of T-Bills from HTM securities to AFS securities in 2005
AFS Securities	445	1,742	Reclassification of T-Bills from HTM securities to AFS securities and certain AFS equity investments to investments in associates in 2005
Other operating income	–	42	Reclassification of Other operating Income from Fee and commission income
Fee and commission income	11,793	11,751	Reclassification of Other operating Income from Fee and commission income
Other assets	3,818	4,808	Reclassification of Investment in associates from separate line to Other assets.
Administrative expenses	8,584	8,006	Reclassification of legal and consulting expenses from Fee and commission expense and other operating expenses
Fee and commission expense	3,022	2,895	Reclassification of legal and consulting expenses from Fee and commission expense
Other operating expenses	–	705	Reclassification of other operating expenses from administrative expenses
Amounts owed to National Bank and Government	4,765	–	Reclassification of loan from National Bank of Georgia to amounts owed to credit institutions and current accounts of government to amounts owed to customers
Amounts owed to customers	121,408	123,573	Reclassification of current accounts of government to amounts owed to customers
Amounts owed to credit institutions	47,637	50,237	Reclassification of loan from National Bank of Georgia to amounts owed to credit institutions
Gains less losses from foreign currencies – dealing	4,351	4,640	Reclassification of realized dealing gains from translation differences
Gains less losses from foreign currencies – translation differences	(483)	(772)	Reclassification of realized dealing gains from translation differences

(Thousands of Georgian Lari)

3. Significant accounting policies

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 operations, 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 inter company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred and where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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 fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. 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.

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 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 recognized 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 recognized in the statement of operations, 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 recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Financial assets

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 recognized 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 after initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase 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 recognized in the consolidated statement of operations.

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 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 amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points 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 amortized cost, gains and losses are recognized in the consolidated statement of operations when the investments are de-recognized or impaired, as well as through the amortization 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. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of operations when the loans and receivables are derecognized or impaired, as well as through the amortization 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 gains or losses being recognized as a separate component of equity until the investment is de-recognized 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 statement of operations. However, interest calculated using the effective interest method is recognized in the consolidated statement of operations. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Georgia ("NBG"), excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

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

Borrowings, which include amounts due to NBG and state entities, amounts due to credit institutions, amounts due to customers, debt securities issued, are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of operations when the liabilities are de-recognized as well as through the amortization process.

Leases

Finance - Group as lessor
The Group recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Net investment in lease is calculated as the present value of the minimum lease payments. 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 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.

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.

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 statement of operations 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. Significant accounting policies (continued)

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of operations.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

When a loan is uncollectible, is it written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated statement of operations.

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 amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of operations, is transferred from equity to the consolidated statement of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of operations. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of operations if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

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 de-recognized 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 recognized 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.

Financial liabilities
A financial liability is de-recognized 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 recognized in the consolidated statement of operations.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgian Tax Code.

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Taxation (continued)

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 also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of plant and 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 on buildings 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 asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of operations, in which case the increase is recognized in the consolidated statement of operations. A revaluation deficit is recognized in the consolidated statement of operations, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued 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 revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. 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

Leasehold improvements are amortized over the life of the related leased asset. The asset's 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.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Goodwill

Goodwill acquired in a business combination represents 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:

- 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 recognized. 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 comprise computer software. Computer software is 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 amortization 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 amortized 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. Amortization 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 amortized, 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 programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized 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 recognized as an expense as incurred.

Provisions

Provisions are recognized 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.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Insurance liabilities

General insurance liabilities
General 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 statement of operations 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 ("DAC".). 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 statement of operations by establishing an unexpired risk provision.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

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.

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 until 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 statement of operations 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 until they ultimately vest, except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of 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, as the minimum an expense is recognized as if the terms had not been modified. In addition an 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.

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.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Segment reporting

The Group's operations are highly integrated and primarily constitute a single industry segment, retain and commercial banking, that accounts for more than 98% of the Group's business. Despite the fact that Group provides commercial and investments banking and insurance services to its commercial and retail customers these activities only constitute a minor portion of the Group's operations. Accordingly for the purposes of IAS 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in Georgia, and the majority of the Group's revenues and net income is derived from operations in, and connected with, Georgia. As a consequence, no segment reporting disclosure is required.

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 recognized as share premium.

Treasury shares

Where the Group or its subsidiaries purchases the Group's shares, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at par value, with adjustment of premiums against share premium.

Dividends

Dividends are recognized 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 financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Premium income
For non-life 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.

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 internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of operations as gains less losses from foreign currencies (translation differences).

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 December 31, 2005, 2004 and 2003 were 1.793 Lari, 1.825 Lari and 2.075 Lari to 1 USD, respectively.

4. Significant accounting judgments and uncertainties

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables
The Group regularly reviews its loans and 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.

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 a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2005 was GEL 5,730 (2004 - GEL 4,389, 2003 – GEL 0). More details are provided in Note 11.

5. Cash and cash equivalents

As of December 31, cash and cash equivalents comprise:

	2005	*2004*	*2003*
Cash on hand	24,908	35,892	15,925
Current and deposit accounts with the National Bank of Georgia	4,273	18,794	9,879
Current accounts with other credit institutions	4,475	15,521	17,822
Time deposits with credit institutions with effective maturity up to 90 days	23,580	32,540	–
Cash and cash equivalents	**57,236**	**102,747**	**43,626**

As of December 31, 2005, GEL 9,808 (2004 – GEL 48,687, 2003 – GEL 14,350) was placed on current and term deposit accounts with internationally recognized and OECD banks that are the counter parties of the Group in performing international settlements. Of these amounts, GEL 538 (2004 – GEL 3,665, 2003 – GEL 4,358) were pledged with counterparties as security for open commitments.

During 2005, the Group placed with and received short-term funds in various currencies from Georgian banks as well as banks located in Commonwealth of Independent States ("CIS"). As of December 31, 2005, the Group had an equivalent of GEL 5,311 (2004 and 2003 – nil) in Euros placed as term deposits with Georgian banks.

(Thousands of Georgian Lari)

6. Amounts due from credit institutions

As of December 31 amounts due from credit institutions comprise:

	2005	*2004*	*2003*
Obligatory reserve with the National Bank of Georgia	28,977	23,245	14,907
Time deposits with effective maturity of more than 90 days or overdue	2,099	–	–
Inter-bank loans receivable	2,368	2,387	1,235
	33,444	**25,632**	**16,142**
Less – Allowances for impairment (Note 13)	(46)	(47)	(25)
Amounts due from credit institutions	**33,398**	**25,585**	**16,117**

Obligatory reserve with NBG represents amounts deposited with NBG relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw this deposit is not restricted by legislation.

As of December 31, 2005, time deposits and inter-bank loans include GEL 3,468 (2004 – 2,387, 2003 – GEL 0) placed with JSC ProCredit Bank.

7. Loans to customers

As of December 31 loans have been extended to the following types of customers:

	2005	*2004*	*2003*
Private entities	174,492	109,761	83,009
Individuals	114,427	73,084	61,284
State entities	25,397	6,051	6,685
State budget or local authorities	–	53	64
Loans to customers	**314,316**	**188,949**	**151,042**

As of December 31, 2005, concentration of the Group's investments in outstanding loans receivable from ten largest third party borrowers comprised GEL 51,197 accounting for 16% of gross loan portfolio of the Group (2004 – GEL 23,586 or 13%, 2003 – GEL 38,533, 26%). An allowance of GEL 3,091 (2004 – GEL 525, 2003 – GEL 1,281) was created against these loans.

As of December 31 loans are principally issued within Georgia, and their distribution by industry sectors is as follows:

	2005	*2004*	*2003*
Trade and services	144,489	86,487	67,946
Individuals	114,427	73,084	61,284
Transport and communication	13,646	5,817	3,312
Construction	12,668	14,621	11,512
Mining	3,667	876	3,163
Agriculture	1,055	1,721	189
Energy	208	89	868
Other	24,156	6,254	2,768
	314,316	**188,949**	**151,042**
Less – Allowance for loan impairment (Note 13)	(16,940)	(19,081)	(9,262)
Loans to customers, net	**297,376**	**169,868**	**141,780**

(Thousands of Georgian Lari)

8. Net investment in lease

As of December 31 net investment in lease comprised the following:

	2005	*2004*	*2003*
Minimum lease payments receivable	5,825	1,072	–
Less - Unearned finance lease income	(1,435)	(470)	–
	4,390	**602**	**–**
Less - Allowance for impairment	(76)	(4)	–
Net investment in lease	**4,314**	**598**	**–**

As of December 31, 2005, concentration of investments in five largest lessees comprised GEL 2,980 or 68% of total net investment in leases and finance income received from them comprised GEL 137 or 42% of total finance income from leases.

Future minimum lease payments to be received for the five years following December 31, 2005, are disclosed below:

	2005	*2004*	*2003*
Within 1 year	177	32	–
From 1 to 5 years	5,326	1,040	–
More than 5 years	322	–	–
Minimum lease payments receivable	**5,825**	**1,072**	**–**

Difference between the minimum lease payments to be received in the future and the net investment in leases represents unearned finance income. The effective interest rate on the lease portfolio is 16% per annum. Minimum lease payments to be received after December 31, 2005 and 2004 are payable to the Company in the following currencies:

	2005	*2004*	*2003*
US Dollars	5,380	1,072	–
Euros	445	–	–
Minimum lease payments receivable	**5,825**	**1,072**	**–**

9. Investment securities

As of December 31 available-for-sale securities comprise:

	2005	*2004*	*2003*
Ministry of Finance Treasury Bills	7,819	19,569	1,683
Corporate shares	508	59	59
Available-for-sale securities	**8,327**	**19,628**	**1,742**

Nominal interest rates and maturities of these securities are as follows:

	2005		*2004*		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Ministry of Finance Treasury Bills	12.85%	2006	15.75%	2005	43.82%	2004

Held-to-maturity securities comprise:

	2005		*2004*		2003	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	2,169	2,281	–	–	–	–
Ministry of Finance Treasury Bills	111	114	–	–	–	–
Held-to-maturity securities	**2,280**	**2,395**	**–**	**–**	**–**	**–**

(Thousands of Georgian Lari)

9. Investment securities (continued)

Nominal interest rates and maturities of these securities are as follows:

	2005		2004		2003	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate bonds	14.00%	2006	–	–	–	–
Ministry of Finance Treasury Bills	13.60%	2006	–	–	–	–

10. Property and equipment

Movements in property and equipment during 2005 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
December 31, 2004	**17,456**	**8,025**	**5,911**	**1,249**	**998**	**–**	**33,639**
Acquisition through business combinations (Note 22)	–	24	39	28	–	–	91
Additions	4,003	3,489	2,650	13	64	1,688	11,907
Disposals	(261)	(8)	(22)	(73)	(15)	–	(379)
Transfers	1,064	(176)	58	106	267	(1,319)	–
December 31, 2005	**22,262**	**11,354**	**8,636**	**1,323**	**1,314**	**369**	**45,258**
Accumulated impairment							
December 31, 2004 and 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2004	**320**	**2,197**	**2,715**	**575**	**206**	**–**	**6,013**
Charge for the year	408	896	1,389	233	149	–	3,075
Disposals	(9)	(39)	(17)	(32)	(15)	–	(112)
December 31, 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Net book value							
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**–**	**27,159**
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

Movements in property and equipment during 2004 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revaluation						
December 31, 2003	**13,233**	**5,971**	**3,848**	**1,049**	**636**	**24,737**
Acquisition through business combinations (Note 22)	1,694	1,121	197	45	–	3,057
Additions	2,529	943	1,997	216	497	6,182
Disposals	–	(10)	(131)	(61)	(135)	(337)
December 31, 2004	**17,456**	**8,025**	**5,911**	**1,249**	**998**	**33,639**
Accumulated impairment						
December 31, 2003 and 2004	**467**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation						
December 31, 2003	**104**	**1,513**	**2,077**	**429**	**123**	**4,246**
Charge for the year	216	684	757	207	115	1,979
Disposals	–	–	(119)	(61)	(32)	(212)
December 31, 2004	**320**	**2,197**	**2,715**	**575**	**206**	**6,013**
Net book value						
December 31, 2003	**12,662**	**4,458**	**1,771**	**620**	**513**	**20,024**
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**27,159**

Movements in property and equipment during 2003 were as follows:

	Buildings	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revaluation						
December 31, 2002	**11,338**	**4,440**	**3,340**	**674**	**490**	**20,282**
Additions	2,388	1,538	598	417	146	5,087
Disposals	–	(7)	(90)	(42)	–	(139)
Accumulated depreciation write-off prior to revaluation	(1,750)	–	–	–	–	(1,750)
Revaluation	1,257	–	–	–	–	1,257
December 31, 2003	**13,233**	**5,971**	**3,848**	**1,049**	**636**	**24,737**
Accumulated impairment						
December 31, 2002	**–**	**–**	**–**	**–**	**–**	**–**
Charge	467	–	–	–	–	467
December 31, 2003	**467**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation						
December 31, 2002	**1,654**	**1,032**	**1,388**	**275**	**40**	**4,389**
Charge for the year	200	481	691	155	83	1,610
Disposals	–	–	(2)	(1)	–	(3)
Write-off prior to revaluation	(1,750)	–	–	–	–	(1,750)
December 31, 2003	**104**	**1,513**	**2,077**	**429**	**123**	**4,246**
Net book value						
December 31, 2002	**9,684**	**3,408**	**1,952**	**399**	**450**	**15,893**
December 31, 2003	**12,662**	**4,458**	**1,771**	**620**	**513**	**20,024**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was December 31, 2003. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2005	*2004*	*2003*
Cost	16,610	11,675	7,395
Accumulated depreciation and impairment	903	498	337
Net carrying amount	**15,707**	**11,177**	**7,058**

11. Intangible assets

Movements in intangible assets during 2005 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2004	**4,389**	**3,462**	**7,851**
Acquisition through business combinations (Note 22)	1,497	3	1,500
Additions	81	1,009	1,090
Disposals	–	(319)	(319)
December 31, 2005	**5,967**	**4,155**	**10,122**
Accumulated amortization and impairment			
December 31, 2004	**–**	**1,565**	**1,565**
Charge for amortization	–	907	907
Charge for impairment	237	11	248
Disposals	–	(283)	(283)
December 31, 2005	**237**	**2,200**	**2,437**
Net book value:			
December 31, 2004	**4,389**	**1,897**	**6,286**
December 31, 2005	**5,730**	**1,955**	**7,685**

Movements in intangible assets during 2004 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2003	**–**	**2,960**	**2,960**
Acquisition through business combinations (Note 22)	4,389	365	
Additions	–	137	4,891
December 31, 2004	**4,389**	**3,462**	**7,851**
Accumulated amortization			
December 31, 2003	**–**	**935**	**935**
Charge for the year	–	630	630
December 31, 2004	**–**	**1,565**	**1,565**
Net book value			
December 31, 2003	**–**	**2,025**	**2,025**
December 31, 2004	**4,389**	**1,897**	**6,286**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

Movements in intangible assets during 2003 were as follows

	Computer software
Cost	
December 31, 2002	**2,694**
Additions	266
December 31, 2003	**2,960**
Accumulated amortization	
December 31, 2002	**314**
Charge for the year	621
December 31, 2003	**935**
Net book value	
December 31, 2002	**2,380**
December 31, 2003	**2,025**

As of December 31, 2005 the impairment charge of GEL 11 related to obsolete software.

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC British Caucasus Insurance Company
- JSC Georgian Card
- Georgian Leasing Company LLC

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 flow 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.

Based on the impairment test goodwill allocated to JSC Georgian Card and Georgian Leasing Company was fully impaired and the impairment charge totaled GEL 236 for the year ended December 31, 2005.

As of December 31 carrying amount of goodwill (less impairment) allocated to each of the cash-generating units:

	WACC applied for impairment	*Carrying amount of goodwill*	
		2005	*2004*
JSC Bank of Georgia	12%	1,892	1,892
JSC British Caucasus Insurance Company	19%	2,341	2,261
JSC Georgian Card	45%	–	192
Georgian Leasing Company LLC	35%	–	44
JSC Euro Pace	25%	1,497	–
Total		**5,730**	**4,389**

(Thousands of Georgian Lari)

12. Taxation

As of December 31 the corporate income tax expense comprises:

	2005	*2004*	*2003*
Current tax charge	206	428	2,193
Deferred tax charge (benefit)	2,902	(1,209)	238
Income tax expense (gain)	**3,108**	**(781)**	**2,431**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2005, 2004 and 2003. The tax rate for companies other than banks was also 20% for 2005, 2004 and 2003. The tax rate for interest income on state securities was 10% for State taxes.

The effective income tax rate differs from the statutory income tax rates. As of December 31 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2005	*2004*	*2003*
Income (loss) before taxation	**16,735**	**(8,130)**	11,585
Statutory tax rate	20%	20%	20%
Theoretical income tax expense (gain) at the statutory rate	**3,347**	**(1,626)**	**2,317**
State securities at lower tax rate	(248)	(330)	(446)
Permanent differences	(169)	–	–
Change in unrecognized deferred tax assets	63	–	–
Non-tax-deductible expenses:			
- impairment of intangible assets	48	–	–
- other impairment losses	48	60	70
- entertainment	11	29	64
- losses on asset disposals	–	199	115
- repairs	–	49	55
- fines	–	15	–
- other	8	395	256
Tax charge of prior periods	–	428	–
Income tax expense	**3,108**	**(781)**	**2,431**

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a turnover based tax, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, 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 interpretive issues.

(Thousands of Georgian Lari)

12. Taxation (continued)

Deferred tax assets and liabilities as of December 31, 2005, 2004 and 2003 comprise:

	2005	*2004*	*2003*
Tax effect of deductible temporary differences:			
Tax loss carried forward	446	1,754	–
Intangible assets	119	–	–
Allowances for impairment and provisions for other losses	59	–	82
Property and equipment	30	145	15
Net investment in lease	12	–	–
	666	**1,899**	**97**
Unrecognized deferred tax assets	(63)	–	–
Deferred tax asset	**603**	**1,899**	**97**
Tax effect of taxable temporary differences:			
Property and equipment	1,638	1,048	601
Loans to customers	665	–	–
Allowances for receivables	124	36	–
Other liabilities	185	–	–
Other assets	78	–	35
Deferred tax liability	**2,690**	**1,084**	**636**
Net deferred tax assets (liability)	**(2,087)**	**815**	**(539)**

The Group has available tax losses carried forward of GEL 2,230 which begins to expire in the period 2006-2009, if not utilized.

As of December 31 tax assets and liabilities consist of the following:

	2005	*2004*	*2003*
Current tax assets	2,570	2,592	–
Deferred tax assets	–	815	–
Tax assets	**2,570**	**3,407**	–
Current tax liabilities	–	203	232
Deferred tax liabilities	2,087	–	539
Tax liabilities	**2,087**	**203**	**771**

13. Allowances for impairment and provisions

Movements in allowances for impairment of interest earning assets were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2002	**14**	**5,557**	**5,571**
Charge	11	4,094	4,105
Write-offs	–	(2,443)	(2,443)
Recoveries	–	2,054	2,054
December 31, 2003	**25**	**9,262**	**9,287**
Charge	22	20,489	20,511
Write-offs	–	(11,409)	(11,409)
Recoveries	–	739	739
December 31, 2004	**47**	**19,081**	**19,128**
Charge (reversal)	(1)	6,229	6,228
Write-offs	–	(11,061)	(11,061)
Recoveries	–	2,691	2,691
December 31, 2005	**46**	**16,940**	**16,986**

(Thousands of Georgian Lari)

13. Allowances for impairment and provisions (continued)

Movements in allowances for other assets and provisions were as follows:

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2002	**103**	**600**	**142**	**845**
Charge	–	1,163	330	**1,493**
Write-offs	–	**(555)**	–	**(555)**
December 31, 2003	**103**	**1,208**	**472**	**1,783**
Charge (reversal)	61	999	499	1,559
Write-offs	(61)	(978)	–	(1,040)
Recoveries	–	74	–	74
December 31, 2004	**103**	**1,303**	**971**	**2,377**
Charge (reversal)	176	(232)	336	280
Write-offs	–	(162)	(332)	(493)
Recoveries	–	10	–	10
December 31, 2005	**279**	**919**	**975**	**2,173**

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with the Georgian legislation, loans must be written off if overdue for more than 150 days.

14. Other assets and liabilities

As of December 31 other assets comprise:

	2005	*2004*	*2003*
Insurance premiums receivable	3,300	1,727	–
Foreclosed assets	2,474	3,654	1,702
Receivable from money transfers	2,184	920	
Prepayment for purchase of fixed assets	1,064	–	–
Operating taxes receivable	613	549	376
Settlements on operations with securities	536	840	695
Investment in associates, net	520	588	990
Lease receivable	504	–	–
Settlement with clients	–	–	103
Other	838	762	2,150
	12,033	**9,040**	**6,016**
Less – Allowance for impairment of other assets (Note 13)	(919)	(1,303)	(1,208)
Other assets	**11,114**	**7,737**	**4,808**

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.

Investment in associates includes allowance for impairment in value of amount of GEL 279 (2004 – GEL 103, 2003 – GEL 103). (Note 13)

(Thousands of Georgian Lari)

14. Other assets and liabilities (continued)

As of December 31 other liabilities comprise:

	2005	2004	2003
Accruals for employee compensation	4,967	–	–
Creditors	3,857	520	–
Unearned premiums reserve	2,154	1,467	–
Reinsurance accounts payable	1,680	825	–
Amounts payable for acquisitions	841	2,644	–
Fines and penalties payable	671	–	–
Insurance claims reserves	545	188	–
Other taxes payable	555	–	–
Dividends payable	115	124	119
Other	693	307	309
Other liabilities	**16,078**	**6,076**	**428**

15. Amounts owed to credit institutions

As of December 31 amounts owed to credit institutions comprise:

	2005	2004	2003
Current accounts	144	113	338
Time deposits and loans	37,007	23,627	25,551
Borrowings from international financial institutions	41,722	24,594	24,348
Amounts owed to credit institutions	**78,873**	**48,334**	**50,237**

During 2005, the Group received short-term funds from Georgian banks in different currencies. As of December 31, 2005, the Group had an equivalent of GEL 5,311 (2004 – GEL 4,349) in Euros received as deposits from Georgian banks, which relate to term deposits placed with the same banks (see Note 5).

As of December 31, 2005, 2004 and 2003, borrowings from international credit institutions included borrowings from DEG, IFC, EBRD, BSTDB, AKA and CommerzBank AG. All these loans bear floating interest rates tied either to LIBOR or EURIBOR, ranging from LIBOR plus 1.3% to LIBOR plus 5.25% (2004 – 2% to 5.25%, 2003 – 4% to 5.25%), for USD borrowings and, from EURIBOR plus 4.25% to EURIBOR plus 6% (2004 – 4.25% to 6%, 2003 – 4.25% to 6%), for EURO borrowings. Contractual maturities of these facilities range from 5 to 10 years (2004 – 5 to 10 years, 2003 – 1 to 7 years) while expected maturities range from 2 to 6 years (2004 – 2 to 5 years, 2003 – 1 to 6 years).

Borrowing agreements contain various covenants, which establish limits for capital adequacy, liquidity, currency position, credit exposures and other measurements. As of December 31, 2005, the Group was not in compliance with certain covenants related to its borrowings from EBRD, BSTDB and DEG and IFC. Subsequent to December 31, 2005 the Group obtained compliance waivers from the relevant institutions.

(Thousands of Georgian Lari)

16. Amounts owed to customers

As of December 31 amounts owed to customers include the following:

	2005	2004	2003
Current accounts	137,296	141,578	57,064
Time deposits	132,656	110,551	66,509
Amounts owed to customers	**269,952**	**252,129**	**123,573**
Held as security against letters of credit	**652**	**3,661**	**4,358**
Held as security against guarantees	**1,422**	**1,240**	**539**

As of December 31, 2005, amounts owed to customers of GEL 37,008 (13%) were due to the ten largest third party customers (2004 - GEL 61,116 (25%), 2003 - GEL 15,209 (13%)).

As of December 31 amounts owed to customers comprise the following:

	2005	2004	2003
Individuals	154,564	114,218	69,560
Private enterprises	86,123	110,081	44,825
State and budgetary organizations	27,456	26,556	7,114
Other	–	–	1,729
Employees	1,809	1,274	345
Amounts owed to customers	**269,952**	**252,129**	**123,573**

As of December 31 customer accounts by industry sector is as follows:

	2005	2004	2003
Individuals	156,373	115,492	69,905
Trade and services	38,262	28,270	19,322
Transport and communication	17,396	32,336	1,236
Energy	14,044	11,845	3,860
Construction	8,018	10,954	7,031
Mining	6,974	11,863	1,043
Agriculture	343	609	232
Other	28,542	40,760	20,944
Amounts owed to customers	**269,952**	**252,129**	**123,573**

17. Debt securities issued

As of December 31 debt securities issued consisted of the following:

	2005	2004	2003
Promissory notes issued	1,143	–	–
Debt securities issued	**1,143**	**–**	**–**

Interest-bearing callable bonds that were issued by the Group as of December 31, 2005 had an aggregate nominal value of GEL 1,126 and mature in September 2007. Original term of the bonds is 2 years (callable in 1 year) and the applicable interest rate is 11% per annum.

(Thousands of Georgian Lari)

18. Equity

As of December 31, 2005, authorized share capital comprised 19,783,409 common shares, of which 14,728,784 were issued and fully paid (2004 – 14,783,409 common shares, of which 11,273,386 were issued and fully paid, 2003 – 10,000,000 common shares, of which 9,855,606). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of December 31, 2005 are described below.

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2002	**9,855,606**	**9,856**
Issuance of shares	–	–
December 31, 2003	**9,855,606**	**9,856**
Issuance of shares	1,417,780	1,417
Purchase of treasury shares	(1,365,996)	(1,366)
Sale of treasury shares	1,365,996	1,366
December 31, 2004	**11,273,386**	**11,273**
Issuance of shares	3,455,398	3,456
December 31, 2005	**14,728,784**	**14,729**

Share capital of the Group was contributed by the shareholders in Georgian Lari and US Dollars and they are entitled to dividends and capital distributions in Georgian Lari. As of December 31, 2005, net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year were GEL 13,838 and 11,980,473, respectively (2004 – net loss of GEL 7,349 and 9,442,042, respectively, 2003 – net income of GEL 9,154 and 9,855,606, respectively).

On December 22, 2005 shareholders of the Bank approved an increase of authorized share capital by additional 5,000,000 ordinary shares. In November 2005, the Group committed to issue 95,000 shares in exchange for control of an acquired subsidiary (Note 22).

As of December 31, 2005, treasury shares of GEL 81 at par value and share premium of GEL 300 comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market.

During the year ended December 31, 2005 shares of GEL 308 at par value and share premium of GEL 709 were granted as compensation to top management.

The Bank did not declare any dividends for the year ending December 31st, 2005. At the Shareholders' Meeting in March 2004, the Group declared dividends of GEL 2,500 in respect of 2003 which comprises GEL 0.00025 per share.

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Statutory general reserve*	*Total*
As of December 31, 2002	**4,644**	**9,721**	**14,365**
Revaluation, net of tax	1,007	–	1,007
Depreciation of revaluation reserve, net of tax	(47)	–	(47)
As of December 31, 2003	**5,604**	**9,721**	**15,325**
Depreciation of revaluation reserve, net of tax	(112)	–	(112)
Transfer of statutory reserve to retained earnings	–	(9,721)	(9,721)
As of December 31, 2004	**5,492**	**–**	**5,492**
Depreciation of revaluation reserve, net of tax	(112)	–	(112)
Sale of revalued asset	(11)	–	(11)
As of December 31, 2005	**5,369**	**–**	**5,369**

(Thousands of Georgian Lari)

18. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

19. Commitments and contingencies

Operating environment

Georgia continues to undergo substantial political, economic and social changes. 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. Furthermore, the Georgian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in Georgia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside, onerous currency controls and low liquidity levels for debt and equity markets.

The Group could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and estimable.

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 December 31, the Group's financial commitments and contingencies comprised the following:

	2005	*2004*	*2003*
Credit related commitments			
Undrawn loan commitments	15,751	8,783	9,091
Letters of credit	20,888	14,770	13,750
Guarantees	34,777	19,454	16,781
	71,416	**43,007**	**39,622**
Operating lease commitments			
Not later than 1 year	1,238	1,639	2,251
Later than 1 year but not later than 5 years	3,323	4,355	5,897
Later than 5 years	1,052	2,167	3,129
	5,613	**8,161**	**11,277**
Capital expenditure commitments	**216**	**2**	**600**
Less – Provisions	(975)	(971)	(472)
Less – Cash held as security against letters of credit and guarantees	(2,073)	(4,901)	(4,897)
Financial commitments and contingencies	**74,197**	**45,298**	**46,130**

(Thousands of Georgian Lari)

19. Commitments and contingencies (continued)

Insurance

The Group's premises are insured for GEL 14,342 (2004 – GEL 10,910, 2003 – GEL 5,738). As of December 31, 2005, the Group has obtained Bankers Blanket Bond insurance and Directors and Officers liability insurance coverage.

20. Net fees and commission income

During the year ended December 31 net fees and commission income comprises:

	2005	*2004*	*2003*
Settlements operations	9,053	6,941	5,486
Guarantees and letters of credit	2,913	2,219	2,352
Cash collection	2,870	2,399	2,473
Currency conversion operations	780	998	960
Brokerage service fees	573	–	–
Advisory	133	–	–
Other	431	502	480
Fees and commission income	**16,753**	**13,059**	**11,751**
Settlements operations	1,171	1,306	1,289
Guarantees and letters of credit	804	882	546
Cash operations	245	362	528
Currency conversion operations	55	153	144
Other	110	42	388
Fees and commission expense	**2,385**	**2,745**	**2,895**
Net fees and commission income	**14,368**	**10,314**	**8,856**

21. Salaries and administrative expenses

During the year ended December 31 salaries and other employee benefits, as well as administrative expenses comprise:

	2005	*2004*	*2003*
Salaries and bonuses	19,501	9,753	7,012
Social security costs	3,718	3,143	2,048
Salaries and other employee benefits	**23,219**	**12,896**	**9,060**
Occupancy and rent	1,890	2,160	2,145
Security	1,248	1,136	1,100
Marketing and advertising	1,141	905	681
Communication	948	695	659
Operating taxes	958	785	908
Legal and other professional services	942	702	174
Office supplies	876	613	867
Repair and maintenance	847	1,064	791
Personnel training and recruitment	560	455	105
Travel expenses	398	147	185
Corporate hospitality and entertainment	244	107	123
Banking services	238	216	27
Insurance	331	196	164
Other	261	191	77
Administrative expenses	**10,883**	**9,372**	**8,006**

(Thousands of Georgian Lari)

21. Salaries and administrative expenses (continued)

As of December 31, 2005, personnel training and recruitment expenses included 329 GEL (2004 – 365 GEL, 2003 – GEL 0) of external recruitment costs incurred for the purposes of recruiting new management.

22. Business combination

JSC"EuroPace"

On November 14, 2005 the Group acquired 100% of the voting shares of JSC Euro Pace – a non-life insurance company. The fair value of identifiable assets, liabilities and contingent liabilities of JSC "Euro Pace" as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1,115	1,115
Property and equipment (Note 10)	91	91
Intangible assets (Note 11)	3	3
Other assets	967	967
	2,176	**2,176**
Provisions	–	–
Current tax liability	69	69
Other liabilities	1,042	1,042
	1,111	**1,111**
Fair value of net assets	**1,065**	**1,065**
Goodwill arising on acquisition (Note 11)	1,497	1,497
Consideration paid	**2,562**	**2,562**

The total cost of the combination was GEL 2,562 which was paid partially with cash and partially with shares of the Group. Cash compensation comprised of GEL 1,850 while share compensation comprised of 95,000 shares of the Group for 7.50 a share (market price) totaling GEL 712. The net cash outflow on acquisition was as follows:

	2005
Cash paid	1,850
Less: cash acquired with the subsidiary	1,115
Net cash outflow	**735**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 13,905 and revenue would have been GEL 57,460. The profit of the acquired subsidiary was not consolidated since the acquisition date was close to year-end and the amount of GEL 46 was immaterial to the Group.

(Thousands of Georgian Lari)

22. Business combination (continued)

JSC "TbilUniversalBank" with "Georgian Leasing Company" LLC

On December 31, 2004 the Group acquired 100% of the voting shares of JSC TbilUniversalBank – commercial Bank and its controlled subsidiary "Georgian Leasing Company" LLC. The fair value of identifiable assets, liabilities and contingent liabilities of JSC "TbilUnivesalBank" consolidated with "Georgian Leasing Company" LLC as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	11,021	11,021
Due from credit institutions	4,008	4,008
Investment securities:		
– held-to-maturity		
– available-for-sale	7,882	7,882
Current tax assets	5	5
Loans to customers	19,769	20,670
Property and equipment (Note 10)	2,441	2,585
Intangible assets (Note 11)	284	284
Deferred Tax Assets	33	33
Goodwill (Note 11)	55	55
Other assets	1,358	1,214
	46,856	**47,757**
Amounts owed to credit institutions	59	59
Amounts owed to customers	36,833	36,833
Current tax liability	160	160
Other liabilities	443	443
	37,495	**37,495**
Fair value of net assets	**9,361**	**10,262**
Goodwill arising on acquisition (Note 11)	1,892	991
Consideration paid	**11,253**	**11,253**

The total cost of the combination was GEL 11,253 which was paid partially with cash and partially with shares of the Group. Cash compensation comprised of GEL 3,650 while share compensation comprised of 1,316,153 shares of the Group for GEL 5.78 a share (market price) totaling GEL 7,603. The net cash outflow on acquisition was as follows:

	2004
Cash paid	3,650
Less: cash acquired with the subsidiary	11,021
Net cash outflow	**(7,371)**

If the combination had taken place at the beginning of the year, the net loss of the Group would have been GEL (5,533) and revenue would have been GEL 38,673. The profit of the acquired subsidiary was not consolidated since the acquisition date was close to year-end and the amount of GEL 30 was immaterial to the Group.

(Thousands of Georgian Lari)

22. Business combinations (continued)

JSC "British Caucasus Insurance Company"

On December 30, 2004 the Group acquired 88% of the voting shares of JSC "British Caucasus Insurance Company" – insurance company. The fair value of identifiable assets, liabilities and contingent liabilities of JSC "British Caucasus Insurance Company" as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	***Carrying value***
Cash and cash equivalents	1,656	1,656
Insurance premiums receivable, net	1,727	1,792
Other debtors and receivable	75	75
Property and equipment (Note 10)	124	88
Intangible assets (Note 11)	29	29
Deferred Tax Assets	13	13
	3,623	**3,653**
Reserves for unearned premiums, net	1,467	1,467
Claims reserves, net	188	188
Reinsurance accounts	523	523
Other creditors and payables	75	77
	2,254	**2,255**
Fair value of net assets	**1,369**	**1,398**
Minority interest	(164)	(164)
Goodwill arising on acquisition (Note 11)	2,251	2,222
Consideration paid	**3,456**	**3,456**

The total cost of the combination was GEL 3,456 which was paid partially with cash and partially with shares of the Group. Cash compensation comprised of GEL 2,878 while share compensation comprised of 101,627 shares of the Group for 5.68 a share (market price) totaling GEL 578. The net cash outflow on acquisition was as follows:

	2004
Cash paid	2,878
Less: cash acquired with the subsidiary	1,656
Net cash outflow	**1,222**

If the combination had taken place at the beginning of the year, the net loss of the Group would have been GEL (7,227) and revenue would have been GEL 37,397. The profit of the acquired subsidiary was not consolidated since the acquisition date was close to year-end and the amount of GEL 0.33 was immaterial to the Group.

(Thousands of Georgian Lari)

22. Business combinations (continued)

JSC "Georgian Card"

On October 20, 2004 the Group acquired 50.3% of the voting shares of JSC "Georgian Card" – plastic card processing company. The fair value of identifiable assets, liabilities and contingent liabilities of JSC "Georgian Card" as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1,119	1,120
Other debtors and receivable	3	3
Inventory	1	1
Property and equipment (Note 10)	446	446
Intangible assets (Note 11)	42	540
Deferred Tax Assets	100	–
	1,711	**2,110**
Current tax liabilities	23	23
Other liabilities	62	62
	85	**85**
Fair value of net assets	**1,626**	**2,025**
Minority interest	(808)	(808)
Goodwill arising on acquisition (Note 11)	192	(207)
Consideration paid	**1,010**	**1,010**

The total cost of the combination was GEL 1,010 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2004
Cash paid	1,010
Less: cash acquired with the subsidiary	1,119
Net cash outflow	**(109)**

If the combination had taken place at the beginning of the year, the net loss of the Group would have been GEL (7,205) and revenue would have been GEL 34,560. The profit of the acquired subsidiary was consolidated since the acquisition date and amounted of GEL 52 of income.

(Thousands of Georgian Lari)

22. Business combinations (continued)

JSC "Galt & Taggart Securities"

Through acquisition of TbilUniversalBank in December 2004, the Bank obtained effective control over another subsidiary, Galt & Taggart Securities. As of December 31, 2004, the Bank had a 34% direct participation in the subsidiary, and also held 8% participation through TbilUniversalBank and 11% participation through a related party. The fair value of identifiable assets, liabilities and contingent liabilities of JSC "Georgian Card" as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1,106	1,106
Investment securities:		
– held-to-maturity	113	113
– available-for-sale	302	302
Property and equipment (Note 10)	46	46
Intangible assets (Note 11)	10	10
Other assets	67	67
	1,644	**1,644**
Amounts owed to customers	967	967
Current tax liabilities	10	10
Other liabilities	4	4
	981	**981**
Fair value of net assets	**663**	**663**
Minority interest	(313)	(313)
Negative goodwill arising on acquisition (Note 11)	(52)	(52)
Consideration paid	**298**	**298**

The total cost of the combination was GEL 298 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2004
Cash paid	298
Less: cash acquired with the subsidiary	1,106
Net cash outflow	**(808)**

If the combination had taken place at the beginning of the year, the net loss of the Group would have been GEL (7,125) and revenue would have been GEL 34,416. The profit of the acquired subsidiary was not consolidated since the acquisition date was close to year-end and the amount of GEL 9 was immaterial to the Group.

23. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main financial risks inherent to the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Group's risk management policies in relation to these risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by borrower and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Credit risk (continued)

The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2005			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	46,787	9,291	1,158	57,236
Amounts due from credit institutions	32,710	688	–	33,398
Loans to customers	297,376	–	–	297,376
Net investments in lease	4,314	–	–	4,314
Investment securities:				
- available-for-sale	8,327	–	–	8,327
- held-to-maturity	2,280	–	–	2,280
All other assets	57,102	171	366	57,639
	448,896	**10,150**	**1,524**	**460,570**
Liabilities:				
Amounts owed to credit institutions	29,316	49,557	–	78,873
Amounts owed to customers	269,952	–	–	269,952
Debt securities issued	1,143	–	–	1,143
All other liabilities	15,720	3,196	224	19,140
	316,131	**52,753**	**224**	**369,108**
Net balance sheet position	**132,765**	**(42,603)**	**1,300**	**91,462**

	2004			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*
Assets:				
Cash and cash equivalents	52,684	48,687	1,376	102,747
Amounts due from credit institutions	25,585	–	–	25,585
Loans to customers	169,868	–	–	169,868
Net investments in lease	598	–	–	598
Investment securities:				
- available-for-sale	19,628	–	–	19,628
- held-to-maturity	–	–	–	–
All other assets	43,376	1,047	323	44,746
	311,739	**49,734**	**1,699**	**363,172**
Liabilities:				
Amounts owed to credit institutions	4,884	43,176	274	48,334
Amounts owed to customers	252,129	–	–	252,129
Debt securities issued	–	–	–	–
All other liabilities	6,466	615	168	7,249
	263,479	**43,791**	**442**	**307,712**
Net balance sheet position	**48,260**	**5,943**	**1,257**	**55,460**

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Geographical concentration (continued)

	2003			
	Georgia	***OECD***	***CIS and other foreign banks***	***Total***
Assets:				
Cash and cash equivalents	28,454	14,350	822	43,626
Amounts due from credit institutions	16,117	–	–	16,117
Investment securities:				
- available-for-sale	1,742	–	–	1,742
- held-to-maturity	–	–	–	–
Loans to customers	141,780	–	–	141,780
All other assets	26,857	–	–	26,857
	214,950	**14,350**	**822**	**230,122**
Liabilities:				
Amounts owed to credit institutions	6,325	43,912	–	50,237
Amounts owed to customers	123,573	–	–	123,573
All other liabilities	1,671	–	–	1,671
Minority Interest	–	–	–	–
	131,569	**43,912**	**–**	**175,481**
Net balance sheet position	**83,381**	**(29,562)**	**822**	**54,641**

Market risk

The Group is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of NBG. The Group's exposure to foreign currency exchange rate risk follows:

	2005			
	GEL	***Freely convertible***	***Non convertible***	***Total***
Assets:				
Cash and cash equivalents	24,086	31,671	1,479	57,236
Amounts due from credit institutions	32,402	957	39	33,398
Loans to customers	85,189	212,187	–	297,376
Net investment in lease	–	4,314	–	4,314
Investment securities:				
- available-for-sale	8,327	–	–	8,327
- held-to-maturity	2,280	–	–	2,280
All other assets	52,472	5,083	84	57,639
	204,756	**254,212**	**1,602**	**460,570**
Liabilities:				
Amounts owed to credit institutions	5,023	73,823	27	78,873
Amounts owed to customers	76,495	193,416	41	269,952
Debt securities issued	1,143	–	–	1,143
All other liabilities	14,227	4,913	–	19,140
	96,888	**272,152**	**68**	**369,108**
Net balance sheet position	**107,868**	**(17,940)**	**1,534**	**91,462**

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Currency risk (continued)

	2004			
	GEL	*Freely convertible*	*Non convertible*	*Total*
Assets:				
Cash and cash equivalents	30,947	71,554	246	102,747
Amounts due from credit institutions	23,245	2,340	–	25,585
Loans to customers	20,155	149,713	–	169,868
Net investment in lease	–	598	–	598
Investment securities:				
- available-for-sale	19,628	–	–	19,628
- held-to-maturity	–	–	–	–
All other assets	42,943	1,803	–	44,746
	136,918	**226,008**	**246**	**363,172**
Liabilities:				
Amounts owed to credit institutions	71	48,263	–	48,334
Amounts owed to customers	59,947	192,182	–	252,129
Debt securities issued	–	–	–	–
All other liabilities	5,935	1,314	–	7,249
	65,953	**241,759**	**–**	**307,712**
Net balance sheet position	**70,965**	**(15,751)**	**246**	**55,460**

	2003			
	GEL	*Freely convertible*	*Non convertible*	*Total*
Assets:				
Cash and cash equivalents	15,053	27,905	668	43,626
Amounts due from credit institutions	14,907	1,210	–	16,117
Investment securities:				
- available-for-sale	1,742	–	–	1,742
- held-to-maturity	–	–	–	–
Loans to customers	22,132	119,648	–	141,780
All other assets	26,480	377	–	26,857
	80,314	**149,140**	**668**	**230,122**
Liabilities:				
Amounts owed to credit institutions	43	50,194	–	50,237
Amounts owed to customers	19,280	104,293	–	123,573
All other liabilities	1,424	247	–	1,671
Minority Interest	–	–	–	
	20,747	**154,734**	**–**	**175,481**
Net balance sheet position	**59,840**	**(5,594)**	**668**	**54,514**
Net off balance sheet position	**3,997**	**35,625**	**–**	**39,622**

Freely convertible currencies represent mainly US Dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Georgia. The Group's principal cash flows, revenues and operating expenses are largely generated in Georgian Lari. As a result, future movements in the exchange rate between the Georgian Lari and US Dollar will affect the carrying value of the Group's USD denominated monetary assets and liabilities.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk

The table below summarizes the Group's exposure to interest rate risk as at December 31, 2005. Included in the table are the Group's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or expected maturity dates.

	2005						
	Non - interest bearing	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	57,236
Amounts due from credit institutions	–	16,387	2,902	6,838	7,246	25	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	31,881	297,376
Net investment in lease	–	108	–	24	3,949	233	4,314
Investment securities:							
- available-for-sale	–	944	4,379	2,498	–	506	8,327
- held-to-maturity	–	–	111	2,169	–	–	2,280
	32,863	**78,243**	**40,022**	**87,184**	**131,974**	**32,645**	**402,931**
Liabilities:							
Amounts owed to credit institutions	144	28,661	14,007	36,061	–	–	78,873
Amounts owed to customers	32,669	120,001	25,773	35,889	55,391	229	269,952
Debt securities issued	–	–	–	–	1,143	–	1,143
	32,813	**148,662**	**39,780**	**71,950**	**56,534**	**229**	**349,968**
Net position	**50**	**(70,419)**	**242**	**15,234**	**75,440**	**32,416**	**52,963**

	2004						
	Non - interest bearing	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	58,670	44,077	–	–	–	–	102,747
Amounts due from credit institutions	–	15,648	4,816	4,085	911	125	25,585
Loans to customers	–	21,269	13,282	31,799	85,710	17,808	169,868
Net investment in lease	–	15	–	3	580	–	598
Investment securities:							
- held-to-maturity	–	–	1,682	17,887	–	59	19,628
	58,670	**81,009**	**19,780**	**53,774**	**87,201**	**17,992**	**318,426**
Liabilities:							
Amounts owed to credit institutions	–	3,086	9,520	35,728	–	–	48,334
Amounts owed to customers	60,259	109,471	26,860	44,303	9,881	1,355	252,129
	60,259	**112,557**	**36,380**	**80,031**	**9,881**	**1,355**	**300,463**
Net position	**(1,589)**	**(31,548)**	**(16,600)**	**(26,257)**	**77,320**	**16,637**	**17,963**

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk (continued)

	2003						
	Non - interest bearing	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:							
Cash and cash equivalents	43,626	–	–	–	–	–	43,626
Amounts due from credit institutions	–	9,404	1,023	2,708	2,982	–	16,117
Investment securities:							
- available-for-sale	–	761	922	–	–	59	1,742
- held-to-maturity	–	–	–	–	–	–	–
Loans to customers	–	22,270	10,232	32,271	42,130	34,877	141,780
	43,626	**32,435**	**12,177**	**34,979**	**45,112**	**34,936**	**203,265**
Liabilities:							
Amounts owed to credit institutions	2,937	9,723	8,028	29,549	–	–	50,237
Amounts owed to customers	2,205	65,722	8,483	22,444	24,719	–	123,573
	5,142	**75,445**	**16,511**	**51,993**	**24,719**	**–**	**173,810**
Net position	**38,484**	**(43,010)**	**(4,334)**	**(17,014)**	**20,393**	**34,936**	**29,455**

As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2005		2004		2003	
	GEL	*Foreign currencies*	*GEL*	*Foreign currencies*	*GEL*	*Foreign currencies*
Amounts due from credit institutions	**8%**	**2%**	10%	2%	–	4%
Investment securities:						
- held-to-maturity	**14%**	**–**	–	–	42%	–
- available-for-sale	**13%**	**–**	16%	–	–	–
Loans to customers	**21%**	**15%**	24%	20%	24%	21%
Amounts owed to credit institutions	**10%**	**7%**	–	5%	–	5%
Amounts owed to customers	**10%**	**8%**	5%	7%	5%	9%

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on inter bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity.

	2005							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	–	57,236
Amounts due from credit institutions	28,976	–	136	2,986	1,300	–	–	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	27,145	4,736	297,376
Net investment in lease	–	108	–	24	3,949	233	–	4,314
Investment securities:								
- available-for-sale	–	944	4,379	2,498	–	506	–	8,327
- held-to-maturity	–	–	111	2,169	–	–	–	2,280
	61,839	**61,856**	**37,256**	**83,332**	**126,028**	**27,884**	**4,736**	**402,931**
Liabilities:								
Amounts owed to credit institutions	41,781	22,572	2,401	3,560	8,559	–	–	78,873
Amounts owed to customers	145,051	7,619	25,773	35,889	55,392	228	–	269,952
Debt securities issued	–	–	–	–	1,143	–	–	1,143
	186,832	**30,191**	**28,174**	**39,449**	**65,094**	**228**	**–**	**349,968**
Net position	**(124,993)**	**31,665**	**9,082**	**43,883**	**60,934**	**27,656**	**4,736**	**52,963**
Accumulated gap	**(124,993)**	**(93,328)**	**(84,246)**	**(40,363)**	**20,571**	**48,227**	**52,963**	

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

	2004							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	58,670	44,077	–	–	–	–	–	102,747
Amounts due from credit institutions	23,245	–	2,340	–	–	–	–	25,585
Loans to customers	–	21,269	13,282	31,799	85,710	16,322	1,486	169,868
Net investment in lease	–	15	–	3	580	–	–	598
Investment securities:								
- held-to-maturity	–	–	1,682	17,887	–	59	–	19,628
	81,915	**65,361**	**17,304**	**49,689**	**86,290**	**16,381**	**1,486**	**318,426**
Liabilities:								
Amounts owed to credit institutions	–	3,086	9,520	10,230	16,373	9,125	–	48,334
Amounts owed to customers	158,920	10,810	26,860	44,303	9,881	1,355	–	252,129
	158,920	**13,896**	**36,380**	**54,533**	**26,254**	**10,480**	**–**	**300,463**
Net position	**(77,005)**	**51,465**	**(19,076)**	**(4,844)**	**60,036**	**5,901**	**1,486**	**17,963**
Accumulated gap	**(77,005)**	**(25,540)**	**(44,616)**	**(49,460)**	**10,576**	**16,477**	**17,963**	

	2003							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	43,626	–	–	–	–	–	–	43,626
Amounts due from credit institutions	14,907	1,210	–	–	–	–	–	16,117
Investment securities:								
- available-for-sale	–	761	922	–	–	59	–	1,742
- held-to-maturity	–	–	–	–	–	–	–	–
Loans to customers	–	22,270	10,232	32,271	42,130	32,837	2,040	141,780
	58,533	**24,241**	**11,154**	**32,271**	**42,130**	**32,896**	**2,040**	**203,265**
Liabilities:								
Amounts owed to credit institutions	2,937	9,723	8,028	3,383	6,202	19,964	–	50,237
Amounts owed to customers	57,064	10,863	8,483	22,444	24,719	–	–	123,573
	60,001	**20,586**	**16,511**	**25,827**	**30,921**	**19,964**	**–**	**173,810**
Net position	**(1,468)**	**3,655**	**(5,357)**	**6,444**	**11,209**	**12,932**	**2,040**	**29,455**
Accumulated gap	**(1,468)**	**2,187**	**(3,170)**	**3,274**	**14,483**	**27,415**	**29,455**	

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. Long-term credits are generally not available in Georgia, except for programs established by international financial institution. However, 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 maturity gap 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 one month in the tables above.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

The Bank was in breach of several debt covenants as of December 31, 2005. Subsequent to December 31, 2005 the Bank received compliance waivers from the respective financial institutions. As the compliance waivers were received after December 31, 2005 and as required by IAS 1, loans from financial institutions of GEL 16,431 with contractual maturities ranging from 13 to 57 months were presented in on demand category. As of December 31, 2005, before considering the impact of the required presentation of such loans in accordance with IAS 1, the Group's accumulated negative liquidity gap for the maturities up to 1 year totals GEL 23,932.

24. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Amounts due from and owed to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates. For longer-term deposits, the interest rates applicable as of December 31, 2005 and 2004 reflect market rates and, consequently, the fair value approximates the carrying amounts.

Investment securities

Held-to-maturity investment securities comprise securities with fixed interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

The fair value of available-for-sale investments equals their carrying value.

Loans to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. As of December 31, 2005 and 2004, fair value of loans to customers approximates their carrying value.

Amounts owed to customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As of December 31, 2005 and 2004, fair value of amounts owed to customers approximates their carrying value.

(Thousands of Georgian Lari)

24. Fair values of financial instruments (continued)

Amounts owed to customers (continued)

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2005		*2004*		*2003*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets						
Amounts due from credit institutions	**33,398**	**33,398**	25,585	25,585	16,117	16,117
Loans to customers	**297,376**	**297,376**	169,868	169,868	141,780	141,780
Investment securities available-for-sale	**8,327**	**8,327**	19,628	19,628	1,742	1,742
Investment securities held-to-maturity	**2,280**	**2,280**	–	–	–	–
Financial liabilities						
Due to credit institutions	**78,873**	**78,873**	48,334	48,334	47,637	47,637
Due to customers	**269,952**	**269,952**	252,129	252,129	126,173	126,173
Debt securities issued	**1,143**	**1,143**	–	–	–	–

(Thousands of Georgian Lari)

25. Related party transactions

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 expense and income for the year are as follows:

	2005			
	Share-holders	*Entities under common control*	*Associates*	*Top management personnel*
Loans outstanding as of January 1, gross	**–**	**6,190**	**966**	**652**
Loans issued during the year	–	14,201	2,720	918
Loan repayments during the year	–	(3,658)	(414)	(427)
Loans outstanding as of December 31, gross	**–**	**16,733**	**3,272**	**1,143**
Less: Allowance for impairment as of December 31	–	(1,257)	(116)	(23)
Loans outstanding as of December 31, net	**–**	**15,476**	**3,156**	**1,120**
Deposits as of January 1	**–**	**2**	**1,837**	**12**
Deposits received during the year	–	252	23,457	5,062
Deposits repaid during the year	–	(2)	(23,543)	(4,961)
Deposits as of December 31	**–**	**252**	**1,751**	**113**
Interest income on loans	–	1,312	255	118
Impairment of loans	–	1,058	(221)	8
Interest expense on deposits	–	1	71	5
Commitments and guarantees received	–	2,932	8	–
Fee and commission income	–	28	36	2

(Thousands of Georgian Lari)

25. Related party transactions (continued)

	2004			
	Share-holders	***Entities under common control***	***Associates***	***Top management personnel***
Loans outstanding as of January 1, gross	**253**	**-**	**1,730**	**694**
Loans issued during the year	–	6,675	1,693	663
Loan repayments during the year	(253)	(485)	(2,457)	(705)
Loans outstanding as of December 31, gross	**–**	**6,190**	**966**	**652**
Less: Allowance for impairment as of December 31	–	(124)	(337)	(15)
Loans outstanding as of December 31, net	**–**	**6,066**	**629**	**637**
Deposits as of January 1	**–**	**541**	**105**	**7**
Deposits received during the year	–	4	15,029	6,409
Deposits repaid during the year	–	(543)	(13,297)	(6,404)
Deposits as of December 31	**–**	**2**	**1,837**	**12**
Interest income on loans	–	18	190	35
Impairment of loans	–	124	325	2
Interest expense on deposits	–	–	73	4
Commitments and guarantees received	–	–	–	–
Fee and commission income	–	–	19	2

	2003			
	Share-holders	***Entities under common control***	***Associates***	***Top management personnel***
Loans outstanding as of January 1, gross	**130**	**-**	**693**	**202**
Loans issued during the year	287	-	3,379	540
Loan repayments during the year	164	-	2,342	48
Loans outstanding as of December 31, gross	**253**	**-**	**1,730**	**694**
Less: Allowance for impairment as of December 31	(5)	-	(35)	(14)
Loans outstanding as of December 31, net	**248**	**-**	**1,695**	**680**
Deposits as of January 1	**-**	**112**	**54**	**-**
Deposits received during the year	362	2,899	5,574	609
Deposits repaid during the year	362	2,470	5,523	602
Deposits as of December 31	**-**	**541**	**105**	**7**
Interest income on loans	7	-	112	4
Impairment of loans	-	-	1	1
Interest expense on deposits	-	2	4	1
Commitments and guarantees received	-	-	-	-
Fee and commission income	-	2	3	-

(Thousands of Georgian Lari)

25. Related party transactions (continued)

All transactions with related parties were conducted on market conditions except for some of the loans issued to associates that were granted with principal and interest payable at maturity.

Compensation of top management personnel comprised the following:

	2005	*2004*	*2003*
Salaries and other short-term benefits	942	937	617
Share based payment compensation	1,017	–	
Recruitment costs	–	365	
Social security costs	392	404	185
Total top management compensation	**2,351**	**1,706**	**802**

During the year the Group provided its top management with share based compensation. The total amount of compensation under that plan during the year ended December 31, 2005 totaled to GEL 1,017 or 308,335 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 the weighted average observable market prices for the shares traded at Georgian Stock Exchange at the grant date.

The total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares are to vest over 3 year period starting August 18, 2004. The remaining 100,000 shares are fully vested at December 31, 2005.

26. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of December 31, 2005, 2004 and 2003, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988 exceeded the recommended minimum ratio of 8% as of December 31, 2005, 2004 and 2003.

27. Subsequent events

Acquisitions

Subsequent to year end, on February 20, 2006 the Group acquired all assets and liabilities of JSC Intellect Bank. The entity was experiencing difficulties and the temporary administrator assigned by NBG concluded the sale. The consideration given for the acquisition was a nominal GEL 0.001. The Group is in process of determining the fair value of identifiable assets, liabilities and contingent liabilities of JSC Intellect Bank as of the acquisition date.

Funding obtained

As part of the acquisition of JSC Intellect Bank (Note 27) the Group obtained a 2-year credit facility of GEL 20,000 from the NBG at 6.2% per annum, plus an exemption from the NBG's required prudential ratios for the entire 12-months period following the acquisition date.

On March 27, 2006 the Group obtained a credit facility from Citigroup. In February 2006 USD 25 million loan was granted to the Bank on market terms, with the contractual maturity of 18 months. Additionally, the Group obtained USD 10 million 10-year loan facility from World Business Capital. The loan is on market terms and is partially secured with a guarantee issued by OPIC.

Bank of Georgia Group

Unaudited Interim Consolidated Financial Statements

For the nine months ended September 30, 2006

CONTENTS

REPORT ON REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of JSC Bank of Georgia –

Introduction

We have reviewed the accompanying interim consolidated balance sheet of JSC Bank of Georgia (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2006 and the related interim consolidated statements of income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

November 7, 2006
Tbilisi, Georgia

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2006
(Thousands of Georgian Lari)

	Notes	*September 30, 2006 (unaudited)*	*December 31, 2005 (audited)*
Assets			
Cash and cash equivalents	5	116,483	57,236
Amounts due from credit institutions	6	56,192	33,398
Loans to customers, net	7	560,403	297,376
Net investment in lease	8	9,053	4,314
Investment securities:			
- available-for-sale	9	6,161	8,327
- held-to-maturity	9	253	2,280
Property and equipment, net	10	52,627	35,815
Intangible assets, net	11	25,551	7,685
Income tax assets	12	–	2,570
Prepayments		3,207	455
Other assets	14	26,784	11,114
Total assets		**856,714**	**460,570**
Liabilities			
Amounts owed to credit institutions	15	223,203	78,873
Amounts owed to customers	16	467,993	269,952
Debt securities issued	17	1,128	1,143
Income tax liabilities	12	3,881	2,087
Provisions	13	–	975
Other liabilities	14	23,430	16,078
Total liabilities		**719,635**	**369,108**
Equity	18		
Share capital		16,738	14,729
Share premium		59,866	32,922
Treasury shares		(201)	(81)
Retained earnings		54,231	37,427
Other reserves		5,285	5,369
Total equity attributable to shareholders		**135,919**	**90,366**
Minority interest		1,160	1,096
Total equity		**137,079**	**91,462**
Total liabilities and equity		**856,714**	**460,570**

Signed and authorized for release on behalf of the Management Board of JSC Bank of Georgia:

Irakli Gilauri — General Director

Irakli Burdiladze — Chief Financial Officer

November 7, 2006

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Notes	*For the nine months ended September 30* 2006	2005
		(unaudited)	
Interest income			
Loans to customers		59,764	32,475
Amounts due from credit institutions		2,100	1,168
Debt securities owned		344	2,113
Net investment in lease		915	251
		63,123	**36,007**
Interest expense			
Amounts owed to customers		12,451	6,444
Amounts owed to credit institutions		9,219	2,594
Debt securities issued		130	4
		21,800	**9,042**
Net interest income		**41,323**	**26,965**
Impairment of interest earning assets	13	10,665	5,602
Net interest income after impairment of interest earning assets		**30,658**	**21,363**
Fees and commissions income		19,783	11,720
Fees and commissions expense		(3,885)	(2,268)
Net fees and commissions income	20	**15,898**	**9,452**
Gains less losses from foreign currencies:			
- dealing		8,195	4,624
- translation differences		(302)	41
Net insurance premiums earned		4,415	2,487
Other operating income		2,706	601
Other non-interest income		**15,014**	**7,753**
Salaries and other employee benefits	21	21,855	16,576
Administrative expenses	21	13,304	7,727
Depreciation, amortization and impairment	10, 11	3,830	3,135
Net insurance claims incurred		1,358	269
Reversal of impairment of other assets and provisions	13	(740)	(1,049)
Other non-interest expense		**39,607**	**26,658**
Income before income tax expense		**21,963**	**11,910**
Income tax expense	12	4,662	3,095
Net income for the period		**17,301**	**8,815**
Attributable to:			
- shareholders of the Group		17,440	9,014
- minority interest		(139)	(199)
		17,301	**8,815**
Earnings per share (in Georgian Lari):	18		
- basic		1.12	0.6
- diluted		1.12	0.6

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Share premium*	*Treasury shares*	*Retained earnings*	*Other reserves*	*Total*	*Minority interest*	*Total equity*
December 31, 2005	**14,729**	**32,922**	**(81)**	**37,427**	**5,369**	**90,366**	**1,096**	**91,462**
Depreciation of revaluation reserve, net of tax *(unaudited)*	–	–	–	84	(84)	–	–	–
Net change in investment securities available for sale, net of tax *(unaudited)*	–	–	–	55	–	55	–	55
Total income and expense recognised directly in equity *(unaudited)*	**–**	**–**	**–**	**139**	**(84)**	**55**	**–**	**55**
Net income for the period *(unaudited)*	–	–	–	17,440	–	17,440	(139)	17,301
Total income and expense for the period *(unaudited)*	**–**	**–**	**–**	**17,579**	**(84)**	**17,495**	**(139)**	**17,356**
Issuance of share capital (Note 18) *(unaudited)*	2,009	28,385	–	–	–	30,394	–	30,394
Dividends declared (Note 18) *(unaudited)*	–	–	–	(775)	–	(775)	–	(775)
Minority interest through acquisition *(unaudited)*	–	–	–	–	–	–	305	305
Acquisition of minority interests in existing subsidiaries *(unaudited)*	–	–	–	–	–	–	(102)	(102)
Purchase of the treasury shares by subsidiary *(unaudited)*	–	(1,441)	(120)	–	–	(1,561)	–	(1,561)
September 30, 2006 *(unaudited)*	**16,738**	**59,866**	**(201)**	**54,231**	**5,285**	**135,919**	**1,160**	**137,079**
December 31, 2004	**11,273**	**13,376**	**(73)**	**23,911**	**5,492**	**53,979**	**1,481**	**55,460**
Depreciation of revaluation reserve, net of tax *(unaudited)*	–	–	–	84	(84)	–	–	–
Net change in investment securities available for sale, net of tax *(unaudited)*	–	–	–	23	–	23	–	23
Total income and expense recognised directly in equity *(unaudited)*				**107**	**(84)**	**23**	**–**	**23**
Net income for the period *(unaudited)*	–	–	–	9,014	–	9,014	(199)	8,815
Total income and expense for the year *(unaudited)*	**–**	**–**	**–**	**9,121**	**(84)**	**9,037**	**(199)**	**8,838**
Issuance of share capital (Note 18) *(unaudited)*	1,625	9,465	–	–	–	11,090	–	11,090
Acquisition of additional interest in existing subsidiaries by minority shareholders *(unaudited)*	–	–	–	–	–	–	380	380
Acquisition of minority interests in existing subsidiaries *(unaudited)*	–	–	–	(405)	–	(405)	(380)	(785)
Sale of treasury shares by subsidiary *(unaudited)*	–	–	73	–	–	73	–	73
September 30, 2005 *(unaudited)*	**12,898**	**22,841**	**–**	**32,627**	**5,408**	**73,774**	**1,282**	**75,056**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Notes	*For the nine months ended September 30* 2006	2005
		(unaudited)	
Cash flows from operating activities			
Interest received		61,236	35,442
Interest paid		(22,480)	(11,583)
Fees and commissions received		19,783	11,720
Fees and commissions paid		(3,885)	(2,269)
Recoveries of assets previously written-off		666	1,162
Insurance premiums received		4,836	3,486
Insurance claims paid		(1,174)	(81)
Realized gains less losses from dealing in foreign currencies		8,195	4,624
Other operating income received		2,404	642
Salaries and benefits paid		(16,380)	(16,576)
Administrative and other operating expenses		(11,487)	(7,727)
Cash flows from operating activities before changes in operating assets and liabilities		**41,714**	**18,840**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(19,555)	(9,171)
Loans to customers		(263,986)	(100,718)
Net investment in lease		(4,739)	(3,132)
Other assets		(12,426)	(6,539)
Net increase / (decrease) in operating liabilities			
Amounts owed to credit institutions		139,048	18,719
Amounts owed to customers		157,956	22,600
Other liabilities		(9,496)	8,557
Net cash flows from / (used in) operating activities before income tax		**28,516**	**(50,844)**
Income tax paid		(204)	(79)
Net cash (used in)/from operating activities		**28,312**	**(50,923)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	9,630	(159)
Proceeds from sale of investment securities		5,291	3,583
Sale (purchase) of investments in associates		571	588
Purchase of property and intangible assets	10, 11	(13,012)	(5,406)
Net cash (used in)/ from investing activities		**2,480**	**(1,394)**
Cash flows from financing activities			
Proceeds from issue of share capital		30,297	10,639
Purchase (sale) of treasury shares		(1,561)	146
Purchase of additional interest in existing subsidiaries, net of cash acquired		–	295
Proceeds from debt securities issued		(15)	288
Dividends paid to shareholders of the Bank		(568)	(2)
Net cash from financing activities		**28,153**	**11,366**
Effect of exchange rates changes on cash and cash equivalents		302	(41)
Net increase/(decrease) in cash and cash equivalents		**59,247**	**(40,992)**
Cash and cash equivalents, beginning of the period		**57,236**	**102,747**
Cash and cash equivalents, ending of the period	5	**116,483**	**61,755**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia (the "Bank") is a joint stock company, formed on the basis of the former State Bank Binsotsbanki on October 21, 1994, under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG") on December 15, 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Cyprus and Ukraine, whose activity includes providing leasing, insurance and brokerage 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 abroad and exchanges currencies. Its main office is in Tbilisi and it has 71 operating outlets in all major cities of Georgia. The Bank's registered legal address is Pushkin Street 3, Tbilisi 0105, Georgia.

As of September 30, 2006 the following shareholders owned more than 5% of the outstanding shares of the Bank. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	September 30, 2006, % (unaudited)	December 31, 2005, %
Bank Austria Creditanstalt	25%	10%
Firebird Avrora Fund	9%	9%
Firebird Republics Fund	9%	9%
Victor Gelovani	8%	12%
East Capital Holding	5%	6%
East Capital Bering Fund	5%	5%
Kontsentra ltd	3%	5%
East Capital Financial Institutions AB II	3%	–
Firebird Global Master Fund	4%	4%
EBRD	–	12%
Other	29%	28%
Total	**100%**	**100%**

2. Basis of preparation

General

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with International Financial Reporting Standards ("IFRS"). These unaudited interim consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale securities and revaluation of property.

These unaudited interim consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries

The unaudited interim consolidated financial statements include the following subsidiaries:

September 30, 2006

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC Insurance Company BCI	100.0%	Georgia	11/08/2001	Insurance	30/12/2004
JSC Galt & Taggart Securities	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	100.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC Insurance Company Europace	100.0%	Georgia	26/07/2004	Insurance (non life)	18/10/2005
JSC Galt & Taggart Capital	100.0%	Georgia	24/05/2006	Investment company	–
JSC SB Outdoor and Indoor	100.0%	Georgia	09/06/2006	Investment company	–
Brokerage Company Hedji LLC	100.0%	Georgia	22/05/2002	Brokerage	17/04/2006
Tavazi LLC	100.0%	Georgia	31/03/2001	Brokerage	20/04/2006
JSC Georgian Card	55.4%	Georgia	25/11/1996	Card processing	20/10/2004
Intertour LLC	87.5%	Georgia	29/03/1996	Travel agency	25/03/2006
Georgian-American Medical Rehabilitation Center Nautilus LLC	100.0%	Georgia	25/03/2004	Fitness centre	25/04/2006
JSC SB Registrar	100.0%	Georgia	29/05/2006	Registrar	–
Metro Service + LLC	100.0%	Georgia	10/05/2006	Business servicing	–
Direct Debit Georgia LLC	100.0%	Georgia	22/02/2006	E-commerce	–
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	–
JSC Prime Fitness	100.0%	Georgia	03/07/2006	Fitness centre	–
JSC SB Real Estate	100.0%	Georgia	27/09/2006	Real estate	–
Holiday Travel LLC	100.0%	Georgia	11/02/2005	Tourist agency	26/09/2006
ICT Delameni LLC	100.0%	Georgia	30/03/1999	Registrar	14/09/2006
Company Center LLC	100.0%	Georgia	21/10/1996	Registrar	14/08/2006
Galt and Taggart Holding Limited	100.0%	Cyprus	03/07/2006	Brokerage	–

December 31, 2005

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC Insurance Company Europace	100.0%	Georgia	26/07/2004	Insurance (non life)	18/10/2005
JSC Georgian Card	55.4%	Georgia	25/11/1996	Card processing	20/10/2004
JSC Galt & Taggart Securities	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	75.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC Insurance Company BCI	100.0%	Georgia	11/08/2001	Insurance	30/12/2004
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	-

During the nine months ended September 30, 2006, the Group increased its ownership in Georgian Leasing Company LLC to 100% and acquired seven new subsidiaries, specifically – Georgian-American Medical Rehabilitation Center Nautilus LLC, Intertour LLC, Brokerage Company Hedji LLC, Tavazi LLC, Company Center LLC, ICT Delameni LLC and Holiday Travel LLC (refer to Note 22 on Business combinations). In addition, during the period from December 31, 2005 through September 30, 2006 the Group has acquired net assets of JSC intellect Bank and incorporated the following eight new legal entities for different business purposes: JSC SB Registrar, Metro Service + LLC, JSC SB Energy (reorganized into JSC SB Outdoor and Indoor on July 27, 2006), Direct Debit Georgia LLC, JSC Galt & Taggart Capital, JSC Prime Fitness, Galt and Taggart Holdings Limited (Cyprus), JSC SB Real Estate.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Changes in accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") – Amendment for financial guarantee contracts – which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended financial guarantee contracts are recognized initially at fair value and generally re-measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18, Revenue;
- IAS 39 – Amendment for hedges of forecast intragroup transactions – which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other that the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- IAS 39 – Amendment for the fair value option – which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

The adoption of these amendments did not affect the Group results of operations or financial position.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application.

3. Significant accounting policies

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 operations, 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 inter company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred and where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

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 fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. 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.

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 are charged or credited to retained earnings.

Investments in associates

Associates are entities in which the Group 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 recognized 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 recognized in the consolidated statement of income, and its share of movements in reserves is recognized 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 recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

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 recognized 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 after initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase 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 recognized in the consolidated statement of income.

(Thousands of Georgian Lari)

3. 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 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 amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points 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 amortized cost, gains and losses are recognized in the consolidated statement of income when the investments are de-recognized or impaired, as well as through the amortization 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. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization 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 gains or losses being recognized as a separate component of equity until the investment is de-recognized 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 statement of income. However, interest calculated using the effective interest method is recognized in the consolidated statement of income. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Georgia ("NBG"), excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

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.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Borrowings

Borrowings, which include amounts due to NBG and state entities, amounts due to credit institutions, debt securities issued, are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the liabilities are de-recognized as well as through the amortization process.

Leases

Finance - Group as lessor
The Group recognizes lease receivables at a value equal to the net investment in lease, starting from the date of commencement of the lease term. The net investment in a lease is calculated as the present value of the minimum lease payments. 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 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.

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.

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 statement of income 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.

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost
If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Allowances for impairment of financial assets (continued)

Assets carried at amortized cost (continued)
When a loan is uncollectible, is it written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the consolidated statement of income.

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 amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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 de-recognized 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 has transferred substantially all the risks and rewards of the asset, or 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 recognized 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.

Financial liabilities
A financial liability is de-recognized 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 recognized in the consolidated statement of income.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgian Tax Code.

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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 also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of plant and 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 on buildings 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 asset revaluation reserve included in the equity section of the consolidated balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which case the increase is recognized in the consolidated statement of income. A revaluation deficit is recognized in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued 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 revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Property and equipment (continued)

Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. 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

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.

Goodwill

Goodwill acquired in a business combination represents 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:

- 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 recognized. 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 comprise computer software. Computer software is 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 amortization 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 amortized 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. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Other intangible assets (continued)

Intangible assets with indefinite useful lives are not amortized, 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 programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized 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 recognized as an expense as incurred.

Provisions

Provisions are recognized 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.

Insurance liabilities

General insurance liabilities
General 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 does not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

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.

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.

Expense is recognized for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of 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, as the minimum an expense is recognized as if the terms had not been modified. In addition an 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.

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.

Segment reporting

The Group's operations are highly integrated and primarily constitute a single industry segment, retail and commercial banking that accounts for more than 93% of the Group's business. Despite the fact that Group provides commercial and investments banking and insurance services to its commercial and retail customers these activities only constitute a minor portion of the Group's operations. Accordingly for the purposes of IAS 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in Georgia, and the majority of the Group's revenues and net income is derived from operations in, and connected with, Georgia. As a consequence, no segment reporting disclosure is prepared.

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 recognized as share premium.

Treasury shares

Where the Group or its subsidiaries purchases the Group'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 share premium.

Dividends

Dividends are recognized 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 financial statements are authorized for issue.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Management advisory and service fees are recorded based on the applicable service contracts.

Premium income
For non-life 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.

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 internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as gains less losses from foreign currencies (translation differences).

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 September 30, 2006 and December 31, 2005 were 1.736 Lari and 1.793 Lari to 1 USD, respectively.

4. Significant accounting judgments and uncertainties

Judgments

The process of applying the Group's accounting policies requires management to make judgments, apart from those involving estimations, which could have a significant effect on the amounts recognized in the consolidated financial statements. The most significant judgments are discussed below.

- The Group regularly reviews its loans and 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.

(Thousands of Georgian Lari)

4. Significant accounting judgments and uncertainties (continued)

Judgments (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.

Estimation uncertainty

The preparation of 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 financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below.

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 September 30, 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 a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of September 30, 2006 was GEL 23,935 (December 31, 2005 - GEL 5,730). More details are provided in Note 11.

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. Cash and cash equivalents

Cash and cash equivalents comprise:

	September 30, 2006 (unaudited)	***December 31, 2005***
Cash on hand	39,730	24,908
Current and time deposit with the National Bank of Georgia	8,679	4,273
Current accounts with other credit institutions	6,566	4,475
Time deposits with credit institutions with effective maturity up to 90 days	61,508	23,580
Cash and cash equivalents	**116,483**	**57,236**

As of September 30, 2006, GEL 9,979 (December 31, 2005 – GEL 9,808) was placed on current and time deposit accounts with internationally recognized and OECD banks that are the counter parties of the Group in performing international settlements.

During 2005, the Group placed with and received short-term funds in various currencies from Georgian banks as well as banks located in Commonwealth of Independent States ("CIS"). As of September 30, 2006, the Group had an equivalent of GEL 18,280 (December 31, 2005 – nil) in US Dollars placed as time deposits with Georgian banks.

(Thousands of Georgian Lari)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Obligatory reserve with the National Bank of Georgia	48,880	28,977
Time deposits with effective maturity of more than 90 days	1,781	2,099
Inter-bank loans receivable	5,531	2,368
	56,192	**33,444**
Less – Allowances for impairment (Note 13)	–	(46)
Amounts due from credit institutions	**56,192**	**33,398**

Obligatory reserve with NBG represents amounts deposited with NBG relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw this deposit is restricted by the statutory legislature.

As of September 30, 2006, time deposits and inter-bank loans include GEL 1,000 (December 31, 2005 – 3,468) placed with JSC ProCredit Bank.

7. Loans to customers

Loans have been extended to the following types of customers:

	September 30, 2006 (unaudited)	*December 31, 2005*
Private entities	357,200	174,492
Individuals	196,985	114,427
State entities	27,498	25,397
Loans to customers	**581,683**	**314,316**

As of September 30, 2006, concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 88,152 accounting for 15% of gross loan portfolio of the Group (December 31, 2005 – GEL 51,197 or 16%). An allowance of GEL 5,889 (December 31, 2005 – GEL 3,091) was created against these loans.

As of September 30, 2006 and December 31, 2005 loans are principally issued within Georgia, and their distribution by industry sectors is as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Trade and services	241,145	144,489
Individuals	203,857	114,427
Construction	61,464	12,668
Transport and communication	10,916	13,646
Mining	2,274	3,667
Agriculture	14,072	1,055
Energy	9,510	208
Other	38,445	24,156
	581,683	**314,316**
Less – Allowance for loan impairment (Note 13)	(21,280)	(16,940)
Loans to customers, net	**560,403**	**297,376**

(Thousands of Georgian Lari)

8. Net investment in lease

Net investment in lease comprised the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Minimum lease payments receivable	11,480	5,825
Less - Unearned finance lease income	(2,427)	(1,435)
	9,053	**4,390**
Less - Allowance for impairment	–	(76)
Net investment in lease	**9,053**	**4,314**

As of September 30, 2006, concentration of investments in five largest lessees comprised GEL 6,906 or 76 % of total net investment in lease (December 31, 2005 – GEL 2,980 or 69%) and finance income received from them as of September 30, 2006 comprised GEL 469 or 51% of total finance income from lease. (December 31, 2005 – GEL 137 or 55%).

Future minimum lease payments to be received during the five years after September 30, 2006 and December 31, 2005, are disclosed below:

	September 30, 2006 (unaudited)	*December 31, 2005*
Within 1 year	274	177
From 1 to 5 years	10,028	5,326
More than 5 years	1,178	322
Minimum lease payments receivable	**11,480**	**5,825**

The difference between the minimum lease payments to be received in the future and the net investment in leases represents unearned finance income. The effective interest rate on the lease portfolio is 16% per annum. Minimum lease payments to be received after September 30, 2006 and December 31, 2005 are payable to the Group in the following currencies:

	September 30, 2006 (unaudited)	*December 31, 2005*
US Dollars	5,575	5,380
Euros	5,905	445
Minimum lease payments receivable	**11,480**	**5,825**

9. Investment securities

Available-for-sale securities comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Corporate bonds	1,343	–
Corporate shares	4,818	508
Ministry of Finance Treasury Bills	–	7,819
Available-for-sale securities	**6,161**	**8,327**

As of September 30, 2006, investments in available-for-sale corporate shares include Group's GEL 4,019 investments in two financial institutions in Georgia and in Ukraine.

(Thousands of Georgian Lari)

9. Investment securities (continued)

Nominal interest rates and maturities of these securities are as follows:

	September 30, 2006 (unaudited)		December 31, 2005	
	%	Maturity	%	Maturity
Corporate bonds	14%	2006	–	–
Ministry of Finance Treasury Bills	–	–	12.85%	2006

Held-to-maturity securities comprise:

	September 30, 2006 (unaudited)		December 31, 2005	
	Carrying value	Nominal value	Carrying value	Nominal value
Corporate bonds	253	281	2,168	2,281
Ministry of Finance Treasury Bills	–	–	112	114
Held-to-maturity securities	**253**	**281**	**2,280**	**2,395**

Nominal interest rates and maturities of these securities are as follows:

	September 30, 2006 (unaudited)		December 31, 2005	
	%	Maturity	%	Maturity
Corporate bonds	14%	2006	14.00%	2006
Ministry of Finance Treasury Bills	–	–	13.60%	2006

10. Property and equipment

Movements in property and equipment during the nine months ended September 30, 2006 were as follows:

	Buildings	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revaluation							
December 31, 2005	**22,262**	**11,354**	**8,636**	**1,323**	**1,314**	**369**	**45,258**
Acquisition through business combinations (Note 22) *(unaudited)*	4,710	1,001	778	132	236	–	6,857
Additions *(unaudited)*	4,951	1,683	2,832	54	101	3,496	13,117
Disposals *(unaudited)*	(62)	(107)	(1,895)	(248)	(154)	(16)	(2,482)
Transfers *(unaudited)*	1,016	–	–	–	198	(1,214)	–
September 30, 2006 *(unaudited)*	**32,877**	**13,931**	**10,351**	**1,261**	**1,695**	**2,635**	**62,750**
Accumulated impairment September 30, 2006 and December 31, 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Charge for the period *(unaudited)*	413	944	1,332	172	215	–	3,076
Disposals *(unaudited)*	(6)	(96)	(1,896)	(243)	(155)	–	(2,396)
September 30, 2006 *(unaudited)*	**1,126**	**3,902**	**3,523**	**705**	**400**	**–**	**9,656**
Net book value							
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**
September 30, 2006 *(unaudited)*	**31,284**	**10,029**	**6,828**	**556**	**1,295**	**2,635**	**52,627**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

Movements in property and equipment during nine months ended September 30, 2005 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
December 31, 2004	**17,456**	**8,025**	**5,911**	**1,249**	**998**	**–**	**33,639**
Additions *(unaudited)*	1,166	1,576	1,029	13	82	1,146	5,012
Disposals *(unaudited)*	(193)	(6)	(22)	(73)	(15)	(6)	(315)
Transfers *(unaudited)*	315	(176)	58	106	(102)	(201)	–
September 30, 2005 *(unaudited)*	**18,744**	**9,419**	**6,976**	**1,295**	**963**	**939**	**38,336**
Accumulated impairment December 31, 2004 and September 30, 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2004	**320**	**2,197**	**2,715**	**575**	**206**	**–**	**6,013**
Charge for the period *(unaudited)*	277	638	1,084	175	102	–	2,276
Disposals *(unaudited)*	(6)	(2)	(14)	(33)	(15)	–	(70)
Transfers *(unaudited)*	–	(36)	–	–	–	–	(36)
September 30, 2005 *(unaudited)*	**591**	**2,797**	**3,785**	**717**	**293**	**–**	**8,183**
Net book value							
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**–**	**27,159**
September 30, 2005 *(unaudited)*	**17,686**	**6,622**	**3,191**	**578**	**670**	**939**	**29,686**

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was December 31, 2003. If the buildings were measured using the cost model, the carrying amounts as of September 30, 2006 and December 31, 2005 would be as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Cost	27,323	16,610
Accumulated depreciation and impairment	(1,324)	(903)
Net carrying amount	**25,999**	**15,707**

(Thousands of Georgian Lari)

11. Intangible assets

Movements in intangible assets during nine months ended September 30, 2006 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2005	**5,730**	**4,144**	**9,874**
Acquisition through business combinations (Note 22) *(unaudited)*	18,205	192	18,397
Additions *(unaudited)*	–	209	209
Disposals *(unaudited)*	–	–	–
September 30, 2006 *(unaudited)*	**23,935**	**4,545**	**28,480**
Accumulated amortization			
December 31, 2005	–	**2,189**	**2,189**
Charge for amortization *(unaudited)*	–	740	740
Disposals *(unaudited)*	–	–	–
September 30, 2006*(unaudited)*	**–**	**2,929**	**2,929**
Net book value:			
December 31, 2005	**5,730**	**1,955**	**7,685**
September 30, 2006 *(unaudited)*	**23,935**	**1,616**	**25,551**

Movements in intangible assets during nine months ended September 30, 2005 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2004	**4,389**	**3,461**	**7,850**
Acquisition through business combinations *(unaudited)*	82	–	82
Additions *(unaudited)*	–	402	402
Disposals *(unaudited)*	–	–	–
September 30, 2005 *(unaudited)*	**4,471**	**3,863**	**8,334**
Impairment charge nine months ended September 30, 2005 *(unaudited)*	**237**	**11**	**248**
Accumulated amortization			
December 31, 2004	–	**1,565**	**1,565**
Charge for the period *(unaudited)*	–	611	611
Transfers *(unaudited)*	–	36	36
September 30, 2005 *(unaudited)*	**–**	**2,212**	**2,212**
Net book value			
December 31, 2004	**4,389**	**1,896**	**6,285**
September 30, 2005*(unaudited)*	**4,234**	**1,640**	**5,874**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

As of September 30, 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

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 flow 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:

		Carrying amount of goodwill	
	WACC applied for impairment	***September 30, 2006 (unaudited)***	***December 31, 2005***
JSC Bank of Georgia	11%	19,418	1,892
JSC British Caucasus Insurance Company	17%	2,341	2,341
JSC Insurance Company Europace	22%	1,497	1,497
Georgian-American Medical Rehabilitation Center Nautilus LLC	25%	89	–
Intertour LLC	23%	275	–
Total		**23,620**	**5,730**

Carrying amount of goodwill for Brokerage Company Hedji LLC, Company Center, ICT Delameni LLC and Holiday Travel LLC totaling 315 GEL has not been tested for impairment by the Group as of September 30, 2006.

12. Taxation

Corporate income tax expense comprises:

	September 30, 2006 (unaudited)	***September 30, 2005 (unaudited)***
Current tax charge	3,714	1,740
Deferred tax charge	948	1,355
Income tax expense	**4,662**	**3,095**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2006 and 2005. The tax rate for companies other than banks was also 20% for 2006 and 2005. The tax rate for interest income on state securities was 10%.

(Thousands of Georgian Lari)

12. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As of September 30 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	September 30, 2006 (unaudited)	*September 30, 2005 (unaudited)*
Income before taxation	**21,963**	**11,910**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4,393**	**2,382**
State securities at lower tax rate	(23)	(67)
Non-taxable revenues	(53)	(1)
Non-tax-deductible expenses:		
- representative	38	–
- other impairment losses	19	–
- charity	70	74
- fines	10	9
- other	208	698
Income tax expense	**4,662**	**3,095**

Georgia currently has a number of laws related to various taxes imposed by state authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, 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 interpretive issues.

Deferred tax assets and liabilities comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Tax effect of deductible temporary differences:		
Tax loss carried forward	–	446
Intangible assets	–	119
Allowances for impairment and provisions for other losses	–	59
Property and equipment	–	30
Net investment in lease	–	12
Amounts owned to credit institutions	180	–
Total tax effect of deductible temporary differences	**180**	**666**
Unrecognized deferred tax assets	–	(63)
Deferred tax asset	**180**	**603**
Tax effect of taxable temporary differences:		
Property and equipment accumulated depreciation	1,889	1,638
Loans to customers	1,161	665
Available for sale securities	11	–
Allowances for impairment and provisions for other losses	116	124
Other liabilities	226	185
Other assets	–	78
Deferred tax liability	**3,403**	**2,690**
Net deferred tax liability	**3,223**	**2,087**

(Thousands of Georgian Lari)

12. Taxation (continued)

All tax losses carried forward were exhausted in 2005. As of September 30, 2006 the Group did not have any tax losses carried forward.

Tax assets and liabilities consist of the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Current tax asset	–	2,570
Tax assets	**–**	**2,570**
Current tax liability	658	–
Deferred tax liability	3,223	2,087
Tax liabilities	**3,881**	**2,087**

13. Allowances for impairment and provisions

Movements in allowances for impairment of interest earning assets were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2005	**46**	**16,940**	**16,986**
Charge (reversal) *(unaudited)*	(46)	11,413	11,367
Write-offs *(unaudited)*	–	(6,371)	(6,371)
Recoveries *(unaudited)*	–	(702)	(702)
September 30, 2006 *(unaudited)*	**–**	**21,280**	**21,280**

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2004	**47**	**19,081**	**19,128**
Charge (reversal) *(unaudited)*	(47)	6,819	6,772
Write-offs *(unaudited)*	–	(9,206)	(9,206)
Recoveries *(unaudited)*	–	(1,170)	(1,170)
September 30, 2005 (*unaudited*)	**–**	**15,524**	**15,524**

Movements in allowances for other assets and provisions were as follows:

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2005	**280**	**919**	**975**	**2,174**
Charge (reversal) *(unaudited)*	(51)	322	(975)	(704)
Write-offs *(unaudited)*	–	(301)	–	(301)
Recoveries *(unaudited)*	–	(36)	–	(36)
September 30, 2006 *(unaudited)*	**229**	**904**	**–**	**1,133**

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2004	**103**	**1,303**	**971**	**2,377**
Reversal *(unaudited)*	–	(400)	(640)	(1,040)
Write-offs *(unaudited)*	–	(87)	(331)	(418)
Recoveries *(unaudited)*	–	(9)	–	(9)
September 30, 2005 *(unaudited)*	**103**	**807**	**–**	**910**

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with the Georgian legislation, loans must be written off if, both, principal and interest are overdue for more than 150 days.

(Thousands of Georgian Lari)

14. Other assets and liabilities

Other assets comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Prepayment for purchase of fixed assets	11,744	1,064
Insurance premiums receivable	4,908	3,300
Receivable from money transfers	1,056	2,184
Foreclosed assets	2,362	2,474
Operating taxes receivable	861	613
Investment in associates	648	800
Lease receivable	3,394	504
Settlements on operations with securities	862	536
Other	2,082	838
	27,917	**12,313**
Less – Allowance for impairment of other assets (Note 13)	(1,133)	(1,199)
Other assets	**26,784**	**11,114**

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.

Other liabilities comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Creditors	1,918	3,857
Accruals for employee compensation	5,457	4,967
Reinsurance accounts payable	2,506	1,680
Unearned premiums reserve	3,287	2,154
Amounts payable for acquisitions	841	841
Other taxes payable	1,244	555
Insurance claims reserves	766	545
Dividends payable	325	115
Fines and penalties payable	332	671
Other	6,754	693
Other liabilities	**23,430**	**16,078**

Other liabilities include accrued costs related to the anticipated issuance by the Bank of Global Depository Receipts in the amount of GEL 1,323. For more details refer to Note 27. In addition, other liabilities include 3,478 GEL advances received from clients for brokerage operations carried out by group.

15. Amounts owed to credit institutions

Amounts owed to credit institutions comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Correspondent accounts	2,822	144
Time deposits and loans	91,262	37,007
Borrowings from international financial institutions	129,119	41,722
Amounts owed to credit institutions	**223,203**	**78,873**

(Thousands of Georgian Lari)

15. Amounts owed to credit institutions (continued)

During nine months of 2006, the Group received short-term funds from Georgian banks in different currencies. As of September 30, 2006, the Group had an equivalent of GEL 34,140 (December 31, 2005 – nil) in US Dollars received as deposits from Georgian banks.

During the nine months of 2006, the Group has obtained an 18-month facility from Citibank N.A. in amount of USD 25,000 (GEL 43,400), 10 year facility from World Business Capital (WBC) in amount of USD 10,000 (GEL 17,360), 10 year subordinated loan from Hillside Apex Fund Limited, a fund managed by Thames River Capital, in the amount of USD 5,000 (GEL 8,680), one year unsecured loan facility from Merrill Lynch International in the amount of USD 25,000 (GEL 43,400) and 10 year convertible subordinated loan facility from a fund advised by HBK Investments L.P. in the amount of USD 25,000 (GEL 43,400). The loans were granted on market terms.

As of September 30, 2006 and December 31, 2005, borrowings from international financial institutions included borrowings from Deutsche Investitions und Enktwicklungsgesellshaft mbH (DEG), International Finance Corporation (IFC), European Bank of Reconstruction and Development (EBRD), Black Sea Trade & Development Bank (BSTDB), and AKA Ausfuhrkredit-Gesellschaft mbH. All these loans bear floating interest rates tied either to LIBOR or EURIBOR, ranging from LIBOR plus 2% to LIBOR plus 5.25% (December 31, 2005 – 2% to 5.25%), for USD borrowings and, from EURIBOR plus 4.25% to EURIBOR plus 4.5% (December 31, 2005 – 4.25% to 6%), for EURO borrowings. Contractual maturities of these facilities range from 5 to 10 years (December 31, 2005 – 5 to 10 years) while expected maturities range from 2 to 5 years (December 31, 2005 – 2 to 6 years).

16. Amounts owed to customers

Amounts owed to customers include the following:

	September 30, 2006 (unaudited)	***December 31, 2005***
Current accounts	245,035	137,296
Time deposits	222,958	132,656
Amounts owed to customers	**467,993**	**269,952**
Held as security against letters of credit	**4,456**	**652**
Held as security against guarantees	**1,820**	**1,422**

As of September 30, 2006, amounts owed to customers of GEL 95,859 (20 %) were due to ten largest third party customers (December 31, 2005 - GEL 35,577 (13%)).

Amounts owed to customers comprise the following:

	September 30, 2006 (unaudited)	***December 31, 2005***
Individuals	193,714	156,373
Private enterprises	206,763	86,123
State and budget organizations	67,516	27,456
Amounts owed to customers	**467,993**	**269,952**

(Thousands of Georgian Lari)

16. Amounts owed to customers (continued)

The following represents the breakdown of customer accounts by industry sector is as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Individuals	211,482	156,373
Trade and services	62,759	38,262
Transport and communication	13,427	17,396
Mining	7,150	6,974
Construction	18,490	8,018
Governmental	73,229	1,997
Energy	1,555	14,044
Agriculture	568	343
Other	79,333	26,545
Amounts owed to customers	**467,993**	**269,952**

17. Debt securities issued

Debt securities issued consisted of the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Promissory notes issued	1,128	1,143
Debt securities issued	**1,128**	**1,143**

Interest-bearing callable notes that were issued by the Group as of September 30, 2006 had an aggregate nominal value of GEL 1,128 and mature in September 2007. (December 31, 2005 – GEL 1,143, September 2007) Original term of the bonds is 2 years (callable in 1 year) and the applicable interest rate is 11% per annum.

18. Equity

As of September 30, 2006, authorized share capital comprised 19,783,409 common shares, of which 16,737,714 were issued and fully paid (December 31, 2005 – 19,783,409 common shares, of which 14,728,784 were issued and fully paid, September 30, 2005 – 14,783,409 common shares, of which 12,898,214 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari.

Movements for the nine month ended September 30, 2006 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2005	**14,728,784**	**14,729**
Issuance of shares *(unaudited)*	2,008,930	2,009
September 30, 2006 *(unaudited)*	**16,737,714**	**16,738**

Movements for the nine month ended September 30, 2005 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2004	**11,273,386**	**11,273**
Issuance of shares *(unaudited)*	1,624,828	1,625
September 30, 2005 *(unaudited)*	**12,898,214**	**12,898**

(Thousands of Georgian Lari)

18. Equity (continued)

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For the nine months ended September 30, 2006, net income attributable to ordinary shareholders was GEL 17,301. As of September 30, 2006 weighted average number of ordinary shares outstanding during the period was 15,444,604. Thus, basic and diluted earnings per share amounted 1.12 Georgian Lari (2005 – GEL 8,815 and 13,646,795, respectively and EPS of 0.6 Georgian Lari).

On December 22, 2005 shareholders of the Bank approved an increase of share capital of an additional 5,000,000 ordinary shares. In March 2006, the Group issued 11,640 shares in exchange for 25% equity interest in an existing subsidiary Georgian Leasing Company LLC.

As of September 30, 2006, treasury shares of 120 GEL at par value and share premium of 1,441 GEL comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market. (2005 – treasury shares of GEL 62 at par and share premium of GEL 180).

During the nine month ended September 30, 2006, 8,333 ordinary shares of GEL 8 at par value and share premium of GEL 19 has been granted as compensation to top management. During nine months ended September 30, 2005 144,000 ordinary shares of GEL 144 at par value and share premium of GEL 331 were granted as compensation to top management.

In April 2006, the Group declared dividends of GEL 775 in respect of 2005 being GEL 0.00005 per share (nil in 2005).

Movements for the nine month ended September 30, 2006 in other reserves were as follows:

	Revaluation reserve for property and equipment	*Total*
As of December 31, 2005	**5,369**	**5,369**
Depreciation of revaluation reserve, net of tax *(unaudited)*	(84)	(84)
As of September 30, 2006 *(unaudited)*	**5,285**	**5,285**

Movements for the nine month ended September 30, 2005 in other reserves were as follows:

	Revaluation reserve for property and equipment	*Total*
As of December 31, 2004	**5,492**	**5,492**
Depreciation of revaluation reserve, net of tax *(unaudited)*	(84)	(84)
As of September 30, 2005 *(unaudited)*	**5,408**	**5,408**

Nature and purpose of other reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

(Thousands of Georgian Lari)

19. Commitments and contingencies

Relationships with Russia

In spring of 2006, Russia instituted a ban on import of certain agricultural products from Georgia. In the second half of 2006, as the result of the worsening relationships with Georgia, Russia has imposed strict commercial and political sanctions against Georgia. Due to important role that Russia plays for the Georgian economy, further deterioration of the relationships between the two countries may have material adverse effect on the economy of Georgia.

Operating environment

Georgia continues to undergo substantial political, economic and social changes. 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. Furthermore, the Georgian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in Georgia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside, onerous currency controls and low liquidity levels for debt and equity markets.

The Group could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and estimable.

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 September 30, 2006 and December 31, 2005 the Group's financial commitments and contingencies comprised the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Credit related commitments		
Undrawn loan commitments	26,734	15,751
Letters of credit	24,681	20,888
Guarantees	66,134	34,777
	117,549	**71,416**
Operating lease commitments		
Not later than 1 year	1,670	1,238
Later than 1 year but not later than 5 years	5,937	3,323
Later than 5 years	1,158	1,052
	8,765	**5,613**
Capital expenditure commitments	**368**	**216**
Less – Provisions	–	(975)
Less – Cash held as security against letters of credit and guarantees	(1,280)	(538)
Financial commitments and contingencies	125,402	75,732

(Thousands of Georgian Lari)

20. Net fees and commission income

During the nine month ended September 30 net fees and commission income comprises:

	For nine months ended September 30	
	2006 (unaudited)	2005 (unaudited)
Settlements operations	10,342	6,246
Guarantees and letters of credit	3,618	2,007
Cash collection	2,998	1,987
Brokerage service fees	1	69
Currency conversion operations	588	552
Advisory	187	26
Other	2,049	833
Fees and commission income	**19,783**	**11,720**
Settlements operations	1,576	1,215
Guarantees and letters of credit	803	510
Cash collection	88	–
Cash operations	37	195
Currency conversion operations	–	45
Advisory	1,024	235
Other	357	68
Fees and commission expense	**3,885**	**2,268**
Net fees and commission income	**15,898**	**9,452**

21. Salaries and administrative expenses

During the nine month ended September 30 salaries and other employee benefits, as well as administrative expenses comprise:

	For nine months ended September 30	
	2006 (unaudited)	2005 (unaudited)
Salaries and bonuses	18,826	14,339
Social security costs	3,029	2,237
Salaries and other employee benefits	**21,855**	**16,576**
Occupancy and rent	1,894	1,273
Security	1,162	876
Marketing and advertising	1,355	749
Communications	1,102	616
Operating taxes	511	684
Legal and other professional services	276	180
Office supplies	1,422	549
Repair and maintenance	889	481
Personnel training and recruitment	236	130
Travel expenses	600	221
Corporate hospitality and entertainment	227	139
Banking services	332	151
Insurance	648	366
Penalties incurred	49	16
Other	2,601	1,296
Administrative expenses	**13,304**	**7,727**

(Thousands of Georgian Lari)

22. Business combination

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations occurred during the nine months ended September 30, 2006 (i.e. Intellect Bank, Intertour LLC and Georgian-American Medical Rehabilitation Center Nautilus LLC) in aggregate as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	***Carrying value***
Cash and cash equivalents	10,373	10,373
Due from credit institutions	3,246	3,246
Deposits with banks	59	59
Investment securities:		
– held-to-maturity	–	–
– available-for-sale	33	33
Investments in associates	1,238	1,238
Loans to customers	8,644	8,644
Other debtors and receivable	2,119	2,119
Property and equipment (Note 10) *(unaudited)*	6,857	5,303
Intangible assets (Note 11) *(unaudited)*	191	191
Capitalization of the gain on initial recognition of the facility received	1,960	–
Other assets	1,659	1,706
	36,379	**32,912**
Amounts owed to credit institutions	7,620	7,620
Amounts owed to customers	37,419	37,419
Accounts payable	2,182	2,182
Advances received	590	590
Loans	3,622	3,622
Tax liabilities	265	265
Other liabilities	2,063	2,063
	53,761	**53,761**
Fair value of net assets	**(17,382)**	**(20,849)**
Minority interest *(unaudited)*	(6)	–
Goodwill arising on acquisition (Note 11) *(unaudited)*	17,707	–
Consideration paid *(unaudited)*	**319**	**–**

The net cash outflow on acquisitions was as follows:

	2006 (unaudited)
Cash paid	(319)
Cash acquired with the subsidiary	10,373
Net cash inflow	**10,054**

If the combinations had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 17,425 and the total revenue would have been GEL 123,305. The profit of the acquired subsidiary consolidated since the acquisition date was only from Intertour LLC and amounted of GEL 38 of income.

(Thousands of Georgian Lari)

22. Business combinations (continued)

JSC Intellect Bank

On February 20, 2006 the Group acquired all the assets and liabilities of JSC Intellect Bank (the "IB"), a banking institution. The sale was conducted by the temporary administrator of IB, the National Bank of Georgia (NBG). JSC Intellect Bank was placed in temporary administration as it was experiencing financial difficulties and liquidity problems. To avoid the possible bankruptcy of the IB, NBG conducted an auction sale of the IB. The Group was successful with the winning bid.

As part of the transaction NBG granted a two year facility to the Group in the amount of GEL 20,000 at substantially below market rates and granted a 12 month waiver for the breaches of prudential ratios resulting from the acquisition of the Bank.

The fair value of identifiable assets, liabilities and contingent liabilities of the IB as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	10,312	10,312
Due from credit institutions	3,246	3,246
Investment securities:		
– held-to-maturity	–	–
– available-for-sale	33	33
Investments in associates	1,238	1,238
Loans to customers	8,644	8,644
Property and equipment	2,843	2,214
Intangible assets	190	190
Capitalization of the gain on initial recognition of the facility received	1,960	–
Other assets	1,467	1,514
	29,933	**27,391**
Amounts owed to credit institutions	7,620	7,620
Amounts owed to customers	37,419	37,419
Tax liabilities	242	242
Other liabilities	1,995	1,995
	47,276	**47,276**
Fair value of net assets	**(17,343)**	**(19,885)**
Goodwill arising on acquisition	17,343	–
Consideration paid	**–**	**–**

The net cash outflow on acquisition was as follows:

	2006
Cash paid	–
Cash acquired with the subsidiary	10,312
Net cash inflow	**10,312**

If the combination had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 17,232 and the total revenue would have been GEL 46,051.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Intertour LLC

On April 25, 2006 the Group acquired a controlling interest (87.5%) in Intertour LLC - travel agency. The fair value of identifiable assets, liabilities and contingent liabilities of Intertour LLC as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	60	60
Deposits with Banks	58	58
Other debtors and receivable	2,033	2,033
Property and equipment	22	22
Intangible assets	1	1
Other assets	91	91
	2,265	**2,265**
Accounts payable	2,157	2,157
Tax liabilities	22	22
Other liabilities	37	37
	2,216	**2,216**
Fair value of net assets	**49**	**49**
Minority interest	(6)	–
Goodwill arising on acquisition	275	–
Consideration paid	**318**	**–**

The total cost of the combination was GEL 318 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2006
Cash paid	318
Less: cash acquired with the subsidiary	(60)
Net cash outflow	**258**

If the combination had taken place at the beginning of the period, the net income of the Group would have been GEL 17,352 and the total revenue would have been GEL 45,968. The profit of the acquired subsidiary was consolidated since the acquisition date and amounted of GEL 38 of income.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Georgian-American Medical Rehabilitation Center Nautilus LLC

On March 14, 2006 the Group obtained a controlling interest (100%) in Georgian-American Medical Rehabilitation Center Nautilus LLC (the "Company") – fitness centre. The Company had outstanding liabilities of GEL 4,212 to the Group and was not able to repay them. The Group was interested in the business of the company and decided to capitalize the loan into investment and obtained the control over the company. The fair value of identifiable assets, liabilities and contingent liabilities of "Georgian-American Medical Rehabilitation Center Nautilus" LLC as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1	1
Deposits with Banks	1	1
Other debtors and receivable	86	86
Property and equipment	3,992	3,067
Other assets	101	101
	4,181	**3,256**
Accounts payable	25	25
Advances received	590	590
Loans	3,622	3,622
Tax liabilities	1	1
Other liabilities	31	31
	4,269	**4,269**
Fair value of net assets	**(88)**	**(1,013)**
Goodwill arising on acquisition	89	–
Consideration paid	**1**	**–**

The total cost of the combination was GEL 1 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2006
Cash paid	1
Less: cash acquired with the subsidiary	(1)
Net cash inflow	**–**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 17,305 and the total revenue would have been GEL 45,971.

Other combinations

During nine months ended September 30, 2006 Group acquired two small brokerage companies namely Heji LLC and Tavazi LLC, two register companies ICT Delameni LLC and Company Center LLC. In addition, during nine months ended September 30 2006 Group acquired travel agency Holiday Travel LLC. These companies were acquired by Insurance Company BCI, Georgian Leasing Company and Intertour LLC respectively.

Brokerage Company Hedji LLC (company) was acquired (100%) on April 17, 2006 by the Group for GEL 2.4. Fair value of the assets of the company estimated provisionally as of the acquisition date amounted to GEL 4 while liabilities to GEL 2. Company did not conduct any operations during the nine months of 2006. The provisional goodwill on acquisition amounted to GEL 0.4 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.4.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Other combinations (continued)

Tavazi LLC was acquired (100%) on May 11, 2006 by the Group for GEL 2.7. Fair value of the assets of Tavazi LLC estimated provisionally as of the acquisition date amounted to GEL 12 (GEL 10 represents fixed assets) while liabilities to GEL 2. Tavazi LLC did not conduct any operations during the nine months of 2006. The provisional negative goodwill on acquisition amounted to GEL 7.3 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.1.

ICT Delameni LLC was acquired (100%) on August 22, 2006 by the Group for GEL 117. Fair value of the assets of ICT Delameni estimated provisionally as of the acquisition date amounted to GEL 63 while liabilities to GEL 5. Operations of ICT Delameni during nine months of 2006 were insignificant. The provisional goodwill on acquisition amounted to GEL 59 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 117.

Company Center LLC was acquired (100%) on August 9, 2006 by the Group for GEL 302. Fair value of the assets of Company Center LLC estimated provisionally as of the acquisition date amounted to GEL 90 while liabilities to GEL 1. Operations of Company Center LLC during nine months of 2006 were insignificant. The provisional goodwill on acquisition amounted to GEL 212 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 302.

Holiday Travel LLC was acquired (100%) on September 4, 2006 by the Group for GEL 35. Fair value of the assets of Holiday Travel LLC estimated provisionally as of the acquisition date amounted to GEL 16 while liabilities to GEL 21. Holiday Travel LLC did not conduct any operations during the nine months of 2006. The provisional goodwill on acquisition amounted to GEL 40 as of September 30, 2006. Company did not incur any cash outflows from acquisition as of September 30, 2006.

23. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main financial risks inherent to the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Group's risk management policies in relation to these risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by borrower and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	September 30, 2006 (unaudited)				*December 31, 2005*			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*	*Georgia*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	63,127	52,921	435	116,483	46,787	9,291	1,158	57,236
Due from credit institutions	55,004	1,188	–	56,192	32,710	688	–	33,398
Loans to customers	560,403	–	–	560,403	297,376	–	–	297,376
Net investments in lease	9,053	–	–	9,053	4,314	–	–	4,314
Investment securities:								
- available-for-sale	6,161	–	–	6,161	8,327	–	–	8,327
- held-to-maturity	223	30	–	253	2,280	–	–	2,280
All other assets	106,035	2,086	48	108,169	57,102	171	366	57,639
	800,006	**56,225**	**483**	**856,714**	**448,896**	**10,150**	**1,524**	**460,570**
Liabilities:								
Owed to credit institutions	35,122	188,081	–	223,203	29,316	49,557	–	78,873
Owed to customers	467,993	–	–	467,993	269,952	–	–	269,952
Debt securities issued	1,128	–	–	1,128	1,143	–	–	1,143
All other liabilities	27,311	–	–	27,311	15,720	3,196	224	19,140
	531,554	**188,081**	**–**	**719,635**	**316,131**	**52,753**	**224**	**369,108**
Net balance sheet position	**268,452**	**(131,856)**	**483**	**137,079**	**132,765**	**(42,603)**	**1,300**	**91,462**

Market risk

The Group is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset & Liability Management Committee (ALCO) sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of NBG. The Group's exposure to foreign currency exchange rate risk follows:

	September 30, 2006 (unaudited)				*December 31, 2005*			
	GEL	*Freely convertible*	*Non convertible*	*Total*	*GEL*	*Freely convertible*	*Non convertible*	*Total*
Assets:								
Cash and cash equivalents	37,017	78,508	958	116,483	24,086	31,671	1,479	57,236
Due from credit institutions	55,004	1,188	–	56,192	32,402	957	39	33,398
Loans to customers	169,883	390,520	–	560,403	85,189	212,187	–	297,376
Net investment in lease	–	9,053	–	9,053	–	4,314	–	4,314
Investment securities:								
- available-for-sale	5,961	200	–	6,161	8,327	–	–	8,327
- held-to-maturity	253	–	–	253	2,280	–	–	2,280
All other assets	103,344	4,825	–	108,169	52,472	5,083	84	57,639
	371,462	**484,294**	**958**	**856,714**	**204,756**	**254,212**	**1,602**	**460,570**
Liabilities:								
Owed to credit institutions	19,805	203,398	–	223,203	5,023	73,823	27	78,873
Owed to customers	163,395	304,598	–	467,993	76,495	193,416	41	269,952
Debt securities issued	1,128	–	–	1,128	1,143	–	–	1,143
All other liabilities	23,850	3,461	–	27,311	14,227	4,913	–	19,140
	208,178	**511,457**	**–**	**719,635**	**96,888**	**272,152**	**68**	**369,108**
Net balance sheet position	**163,284**	**(27,163)**	**958**	**137,079**	**107,868**	**(17,940)**	**1,534**	**91,462**

Freely convertible currencies represent mainly US Dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Georgia.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk

The table below summarizes the Group's exposure to interest rate risk as at September 30, 2006 and December 31, 2005. Included in the table are the Group's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or expected maturity dates.

	September 30, 2006 (unaudited)						
	Non - interest bearing	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:							
Cash and cash equivalents	58,101	50,379	8,003	–	–	–	116,483
Due from credit institutions		38,294	3,341	9,136	5,287	134	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	67,567	560,403
Net investment in lease	–	–	–	83	8,058	912	9,053
Investment securities:							–
- available-for-sale	616	92	1,361	12	3	4,077	6,161
- held-to-maturity	–	–	253	–	–	–	253
	58,717	**151,187**	**86,005**	**169,330**	**210,616**	**72,690**	**748,545**
Liabilities:							
Owed to credit institutions	420	10,323	5,764	87,307	41,836	77,553	223,203
Owed to customers	161,497	165,438	27,882	76,538	35,537	1,101	467,993
Debt securities issued	–	–	–	1,128	–	–	1,128
	161,917	**175,761**	**33,646**	**164,973**	**77,373**	**78,654**	**692,324**
Net position	**(103,200)**	**(24,574)**	**52,359**	**4,357**	**133,243**	**(5,964)**	**56,221**

	December 31, 2005						
	Non - interest bearing	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:							
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	57,236
Due from credit institutions	–	16,387	2,902	6,838	7,246	25	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	31,881	297,376
Net investment in lease	–	108	–	24	3,949	233	4,314
Investment securities:							
- available-for-sale	–	944	4,379	2,498	–	506	8,327
- held-to-maturity	–	–	111	2,169	–	–	2,280
	32,863	**78,243**	**40,022**	**87,184**	**131,974**	**32,645**	**402,931**
Liabilities:							
Owed to credit institutions	144	28,661	14,007	36,061	–	–	78,873
Owed to customers	32,669	120,001	25,773	35,889	55,391	229	269,952
Debt securities issued	–	–	–	–	1,143	–	1,143
	32,813	**148,662**	**39,780**	**71,950**	**56,534**	**229**	**349,968**
Net position	**50**	**(70,419)**	**242**	**15,234**	**75,440**	**32,416**	**52,963**

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk (continued)

As of September 30, 2006 and December 31, 2005 the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	September 30, 2006 (unaudited)		*December 31, 2005*	
	GEL	*Foreign currencies*	*GEL*	*Foreign currencies*
Due from credit institutions	4%	8%	8%	2%
Investment securities:				
- held-to-maturity	14%	–	14%	–
- Available-for-sale	14%	–	13%	–
Loans to customers	23%	16%	21%	15%
Owed to credit institutions	6%	7%	10%	7%
Owed to customers	7%	8%	10%	8%

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. This risk of liquidity is managed through the Asset & Liabilities Management Committee ("ALCO") approved liquidity framework. Group Treasury manages liquidity on a daily basis and submits monthly reports to ALCO. In order to manage liquidity risk, the Group 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 inter bank 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 Group 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 Group's current and planned activities. The annual review encompasses the funding scenarios modeled, the modeling 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 Board of Directors.

Group Treasury 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 Group'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 Board of Directors.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity.

	September 30, 2006 (unaudited)							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	96,654	11,826	8,003	–	–	–	–	116,483
Due from credit institutions	27,918	12,149	3,003	8,107	4,900	115	–	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	34,732	32,835	560,403
Net investment in lease	–	–	–	83	8,058	912	–	9,053
Investment securities:								
- available-for-sale	616	92	1,361	12	3	4,077	–	6,161
- held-to-maturity	–	–	253	–	–	–	–	253
	125,188	**86,489**	**85,667**	**168,301**	**210,229**	**39,836**	**32,835**	**748,545**
Liabilities:								
Owed to credit institutions	419	10,323	5,813	88,246	42,392	75,710	300	223,203
Owed to customers	272,316	54,618	27,882	76,539	35,537	1,101	–	467,993
Debt securities issued	–	–	–	1,128	–	–	–	1,128
	272,735	**64,941**	**33,695**	**165,913**	**77,929**	**76,811**	**300**	**692,324**
Net position	**(147,547)**	**21,548**	**51,972**	**2,388**	**132,300**	**(36,975)**	**32,535**	**56,221**
Accumulated gap	***(147,547)***	***(125,999)***	***(74,027)***	***(71,639)***	***60,661***	***23,686***	***56,221***	

	December 31, 2005							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	–	57,236
Due from credit institutions	28,976	–	136	2,986	1,300	–	–	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	27,145	4,736	297,376
Net investment in lease	–	108	–	24	3,949	233	–	4,314
Investment securities:								
- available-for-sale	–	944	4,379	2,498	–	506	–	8,327
- held-to-maturity	–	–	111	2,169	–	–	–	2,280
	61,839	**61,856**	**37,256**	**83,332**	**126,028**	**27,884**	**4,736**	**402,931**
Liabilities:								
Owed to credit institutions	41,781	22,572	2,401	3,560	8,559	–	–	78,873
Owed to customers	145,051	7,619	25,773	35,889	55,392	228	–	269,952
Debt securities issued	–	–	–	–	1,143	–	–	1,143
	186,832	**30,191**	**28,174**	**39,449**	**65,094**	**228**	**–**	**349,968**
Net position	**(124,993)**	**31,665**	**9,082**	**43,883**	**60,934**	**27,656**	**4,736**	**52,963**
Accumulated gap	***(124,993)***	***(93,328)***	***(84,246)***	***(40,363)***	***20,571***	***48,227***	***52,963***	

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

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 maturity gap 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 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.

The management of the Group has adopted the following action plan to improve the liquidity position of the Group:

- In October 2006, the Group has entered into a USD 25 million (GEL 44,325) ten-year convertible subordinated loan facility agreements with a fund advised by HBK Investments L.P. Subordinated loan, which has been fully disbursed, has the annual interest rate of 4% (four percent). HBK has an option to convert the Convertible Loan into shares of Bank of Georgia over two years from the date of the disbursement at a 20% premium to a future event-driven reference market price.

As of September 30, 2006, deposits amounted to 467,992 GEL (December 31, 2005 – GEL 269,952) and represented 65% (December 31, 2005 – 73%) of our total liabilities. These borrowings continue to provide a substantial majority of the Group's funding and represent a well-diversified and stable source of funds. As of September 30, 2006, amounts owed to other credit institutions accounted for 223,203 GEL (December 31, 2005 – GEL 78,873) and represented 31 % (December 31, 2005 – 21%) of total liabilities. Amounts owed to other financial institutions are taken from a wide range of counterparties.

In management's opinion, liquidity is sufficient to meet our present requirements.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Georgian Lari)

24. Fair values of financial instruments

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Amounts due from and owed to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates. For longer-term deposits, the interest rates applicable as of September 30, 2006 and December 31, 2005 reflect market rates and, consequently, the fair value approximates the carrying amounts.

Investment securities

Held-to-maturity investment securities comprise securities with fixed interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

The fair value of available-for-sale investments equals their carrying value.

Loans to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. As of September 30, 2006 and December 31, 2005, fair value of loans to customers approximates their carrying value.

Amounts owed to customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As of September 30, 2006 and December 31, 2005, fair value of amounts owed to customers approximates their carrying value.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	September 30, 2006 (unaudited)		*December 31, 2005*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets				
Amounts due from credit institutions	56,192	56,192	33,398	33,398
Loans to customers	560,403	560,403	297,376	297,376
Investment securities:				
- available-for-sale	6,161	6,161	8,327	8,327
- held-to-maturity	253	253	2,280	2,280
Financial liabilities				
Due to credit institutions	223,203	223,203	78,873	78,873
Due to customers	467,993	467,993	269,952	269,952
Debt securities issued	1,128	1,128	1,143	1,143

(Thousands of Georgian Lari)

25. Related party transactions

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 period end, and related expense and income for the period are as follows:

	September 30, 2006 (unaudited)				*September 30, 2005 (unaudited)*			
	Share-holders	*Entities under common control*	*Associates*	*Top manage-ment personnel*	*Share-holders*	*Entities under common control*	*Associates*	*Top manage-ment personnel*
Loans outstanding as of January 1, gross	**–**	**16,733**	**3,272**	**1,143**	**–**	**6,190**	**966**	**652**
Loans granted during the period	121	10,424	16,947	896	–	3,240	5,245	522
Loan repayments during the period	–	(20,019)	(15,484)	(1,698)	–	(6,276)	(4,254)	(348)
Loans outstanding as of September 30, gross	**121**	**7,138**	**4,735**	**341**	**–**	**3,154**	**1,957**	**826**
Less: Allowance for impairment as of September 30	–	(141)	(138)	(7)	–	(63)	(39)	(16)
Loans outstanding as of September 30, net	**121**	**6,997**	**4,597**	**334**	**–**	**3,091**	**1,918**	**810**
Deposits as of January 1	**–**	**252**	**1,751**	**113**	**–**	**2**	**1,837**	**12**
Deposits received during the period	34,694	54,667	51,888	26,029	392	5,542	13,999	3,033
Deposits repaid during the period	(23,579)	(54,915)	(52,262)	(24,184)	–	(5,536)	(14,846)	(2,222)
Deposits as of September 30	**11,115**	**4**	**1,377**	**1,958**	**392**	**8**	**990**	**823**
Interest income on loans	2	2,447	814	58	–	341	108	74
Impairment of loans	–	–	–	–	–	–	–	–
Interest expense on deposits	5		100	29	–		30	45
Commitments and guarantees received	–	–	–	–	–	**–**	–	–
Fee and commission income	–	12	15	1	–	–	6	1

All transactions with related parties were conducted on market conditions except for some of the loans issued to associates that were granted with principal and interest payable at maturity.

(Thousands of Georgian Lari)

25. Related party transactions (continued)

Compensation of top management personnel comprised the following:

	For the nine months ended September 30	
	2006 (unaudited)	***2005 (unaudited)***
Salaries and other short-term benefits	895	735
Share – based compensation	27	475
Social security costs	22	6
Total top management compensation	**944**	**1,216**

During the nine month period the Group provided its top management with share-based compensation. The total amount of compensation under that plan during the nine month period ended September 30, 2006 totaled to GEL 27 or 8,333 ordinary shares of the Bank (nine months ended September 30, 2005 – GEL 475 or 144,000 ordinary shares) 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 the weighted average observable market prices for the shares traded at Georgian Stock Exchange at the grant date.

The total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares are to vest over 3 year period starting August 18, 2004. The remaining shares are fully vested at September 30, 2005.

26. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of September 30, 2006 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum. (December 31, 2005 - the Bank's capital adequacy ratio on this basis exceeded the statutory minimum).

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988 exceeded the recommended minimum ratio of 8% as of September 30, 2006 and December 31, 2005.

27. Subsequent events

Anticipated listing on London Stock Exchange

The Group is currently preparing for a public offering on the London Stock Exchange in 2006 (the "Offering"). The Bank already has negotiated and identified all the parties to be involved in the Offering process. ING Bank N.V. was appointed as the sole global co-coordinator, global book runner and lead manager of and Baker Mackenzie LLP as the transaction counsel. The Group is planning to issue GDR's through a depositary which will be listed on London Stock Exchange. The Group intends to use part of the proceeds from the Offering for regional expansion of its business.

Business development

In October of 2006 the Group increased investment in a financial institution in Ukraine by GEL 1,743.

On October 23, 2006, the Group established Galt & Taggart Securities (Ukraine) LLC ("GTU") in Ukraine. GTU intends to engage in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, in asset management, and has applied to the State Securities Commission of Ukraine for the appropriate licenses for those activities.

On November 6, 2006 the Group established its Executive Equity Compensation Plan (the "EECP"). The Group settled the trust with GEL 1.5 million. In connection with the EECP, the trust will subscribe to 1,000,000 shares of the Bank in the form of GDRs. The trust is further expected to subscribe to an additional 500,000 shares of the Bank in the form of GDRs which management expects to occur in 2007, subject to the availability of authorized and not issued shares.

ANNEX A – GEORGIA: COUNTRY DESCRIPTION

The following information relating to Georgia is for background purposes only. The information has been extracted from publicly available sources. Bank of Georgia has not independently verified the following information, and neither Bank of Georgia nor the Lead Manager accepts any responsibility for the accuracy of this information.

Area and Population

Georgia occupies a land area of 69,700 square kilometres. It is bordered by Russia to the north, Azerbaijan to the east, Armenia and Turkey to the south and the Black Sea to the west. Georgia consists of nine districts and 65 regions. Abkhazia and Ajaria are autonomous regions. The status of South Ossetia, a former autonomous region, is being negotiated with the separatist government of that region.

The population of Georgia is currently approximately 4.4 million. The majority of the population are ethnic Georgians. Other minority ethnic groups include Armenians, Russians, Azeri, Ossetians, and Abkhazians. The official language of Georgia is Georgian, although a large proportion of the population is bilingual, speaking both Georgian and Russian fluently.

History and Political Developments Since Independence

Georgia was incorporated into the Russian empire in 1801. After the Russian Revolution of 1917, Georgia declared independence in 1918, and in 1921 it was incorporated into the Soviet Union.

Following the collapse of the Soviet Union in 1991, Georgia declared independence and elected nationalist leader Zviad Gamsakhurdia as president. Mr. Gamsakhurdia was deposed in a *coup d'état* from December 1991 to January 1992. In March 1992, former Foreign Minister of the Soviet Union Eduard Shevardnadze became the country's new leader as the head of a transitional governing body called the "State Council". Georgia was recognised as a sovereign state by the EU countries on 23 March 1992, by the United States on 29 December 1991 and by the Russian Federation on 2 July 1992. On 31 July 1992, Georgia became the 179th plenipotentiary member of the United Nations.

Georgia was embroiled in a civil war in 1992 and 1993. During this period, disputes with local separatists in the Abkhazian and South Ossetian autonomous republics, which declared their independence from Georgia in 1990, led to inter-ethnic violence and armed conflict. Widely believed to be supported by Russia, these regions achieved *de facto* independence from Georgia, although the Georgian government retains control of Upper Abkhazia and the Georgian villages within South Ossetia. The independence of this region, however, is not recognised by Georgia or internationally. The most recent of the United Nations' Security Council (whose permanent members are China, France, Russia, the United Kingdom and the United States) Resolution 1716, adopted on 13 October 2006, reaffirms the commitment to the territorial integrity of Georgia within its internationally recognised borders.

Mr. Shevardnadze was elected president in 1995 and was re-elected in 2000. Mr. Shevardnadze resigned in November 2003 following mass demonstrations over the conduct of parliamentary elections, popular discontent at widespread corruption and the slow pace of reforms. The peaceful uprising that displaced Mr. Shevardnadze is known as the "Rose Revolution". Mikheil Saakashvili was the leader of the revolution and was himself elected president in January 2004. Mr. Saakashvili consolidated his position when his National Movement-Democratic Front won the parliamentary elections soon after he became president.

Following the Rose Revolution, the new government launched a series of reforms aimed at fighting corruption, raising living standards, strengthening the country's military and steering Georgia towards NATO and EU membership. The new government's efforts to reassert Georgian authority in the autonomous republic of Ajaria led to a crisis in early 2004 but were ultimately successful. The government has intensified its efforts in Abkhazia and South Ossetia but without success so far.

A new constitution was approved in August 1995, which reinforces the presidential democratic form of government, providing for a strong executive branch and a unicameral 235-seat parliament. The constitutional court met for the first time in late 1996.

Recent Political Developments

The government's reform policies have been undermined by certain recent high-profile events, including rioting in March 2006 in the main prison in Tbilisi and allegations that the murder of a banker in January 2006 was ordered by officials of the Ministry of the Interior. In an attempt to force the resignation of the interior minister and to make several other demands, a total of 39 members of parliament from four opposition parties boycotted parliamentary sessions beginning in April 2006. The government and the parliamentary majority rejected many of the demands, and the boycott continued through the remainder of the parliamentary session that concluded at the end of June 2006. By the end of November 2006, the four opposition parties had ended their boycott of Parliament.

On 27 September 2006, Georgian authorities detained four Russian officers upon suspicion of spying. Although the four officers were released by the Georgian authorities, Russia retaliated against Georgia by imposing strict commercial sanctions which include the suspension of all ground, sea and airborne transportation, as well as postal links, between Georgia and Russia. In addition, Russia has commenced deportations of individuals with Georgian nationality from the territory of Russia. Several proposals have also been voiced by members of the Russian Parliament to ban all banking activities, including the transfer of remittances, between Russia and Georgia. The NBG has stated that any ban on banking activities would be in contravention of the IMF Charter. Both Georgia and Russia are members of the IMF. On 1 November 2006, the Foreign Ministers of each of Georgia and Russia met in Moscow in the first meeting of high-level officials between the two countries since the commencement of the sanctions. In November 2006, Presidents Saakashvili and Putin met briefly at the CIS summit in Minsk. As of the date of this Prospectus, Russia has not indicated when or if the above-mentioned sanctions will be lifted.

On 5 October 2006 elections for local self-governance bodies were held throughout the territory of Georgia. The ruling party had an overwhelming victory resulting in control of all local self-governance bodies. Although the elections were generally recognized by the international community as democratic, certain political parties have qualified the elections as rigged. Most criticism has concentrated around the inability of the central government to procure accurate electoral lists. In December 2006, a new set of amendments to the Constitution of Georgia was adopted by Parliament, which shortens the current presidential term to allow simultaneous presidential and parliamentary elections in autumn 2008.

Recent Developments in Abkhazia and South Ossetia

On 15 May 2006 the self-declared Abkhaz president, Sergei Bagapsh, unveiled a plan seeking to normalise relations with the Georgian government. Both the Georgian government and the Abkhaz leadership are discussing the return of internally displaced persons from the conflict on economic rehabilitation with an aim to eventually resolving the political status of the region. In July 2006, developments occurred in Upper Abkhazia (formerly the Kodori Gorge), an area in the northeastern corner of Abkhazia. Upper Abkhazia has remained under the control of the Georgian government since the Abkhazian war of 1992-1994, but has been effectively run by local authorities and warlord Emzar Kvitsiani. Conflict arose when Kvitsiani armed his former militiamen and challenged the Georgian government's control of Upper Abkhazia in July 2006. When Kvitsiani and his militia groups refused to disarm, the Georgian government dispatched police forces to the area. *De facto* Abkhaz authorities claim that the police operation violated the Agreement on the Ceasefire and Disengagement of Forces of 14 May 1994, and of the May protocol of 1998, according to which the Georgian side had assumed the obligation not to dispatch military to the gorge. Georgian authorities have stated that entry into the gorge was not a military operation, as only police were dispatched, and therefore no violation of ceasefire agreements occurred. As of late July 2006, it was reported in Georgia that the deployed police forces had successfully gained control of all villages in the gorge. The Abkhazian government in exile moved from Tbilisi to Upper Abkhazia in September 2006.

In early 2005, Mr. Saakashvili unveiled a peace plan for South Ossetia that included an offer of substantial autonomy. This was followed in late 2005 with a plan produced by the Georgian government promoting demilitarisation, economic rehabilitation and negotiations on the political status of South Ossetia. Georgia's prime minister, Zurab Nogaideli, submitted the plan to a meeting of the OSCE (Organisation for Security and Co-operation in Europe) where it received support from all member states, including Russia. In May 2006 the Georgian government submitted to parliament a draft law on property restitution for the victims of the civil war that took place in South Ossetia during the early 1990s. The draft recognises the right of return of all internally displaced persons from the conflict, irrespective of ethnicity. It also recognises their right to repossess their houses, as long as they can prove ownership. The law calls for the creation of a 12-person committee to oversee the restitution process, six of whom would be drawn from international organisations and who would be in charge of appointing three Georgian and three Ossetian members. The draft law has received the backing of the United States government and the Venice Commission of the Council of Europe. However, the draft law has not yet received the backing of the South Ossetian government.

On 12 November 2006, two parallel presidential elections and referenda on the independence issues were held in South Ossetia, one organised by the current pro-Russian ruling regime, while the other by a group of pro-Georgian officials of the former South Ossetian regime. While both actions were largely condemned by the international community, certain officials of the Russian Federation, including the Ministry of Foreign Affairs, have expressed their implicit support of the first group while condemning the actions of the second one.

In addition, over the last two months, several brief armed clashes were reported in Abkhazia and it was reported that Russia began construction of a gas pipeline designed to supply South Ossetia with gas directly from Russia as a means to increase the autonomy of the breakaway republic.

The Political System

The President and Government

The Constitution of Georgia provides for a strong executive presidency. The President of Georgia serves as the head of state and the armed forces and has responsibility for foreign policy and home affairs. According to the Constitution of Georgia, the President of Georgia is empowered to lead and exercise the internal and foreign policy of the state. He is responsible for the unity and integrity of the country and the activity of state bodies in accordance with the Constitution of Georgia. The President of Georgia is the highest representative of Georgia in foreign relations. His powers include the authority to conclude international treaties and agreements and to dissolve the government.

The President is elected by popular vote for a five-year term and is eligible to be re-elected for one second term. The last presidential elections were held on 4 January 2004 and the next presidential elections were due to be held in April 2009. In December 2006, a new set of amendments to the Constitution of Georgia was adopted by Parliament, which shortens the current presidential term to allow simultaneous presidential and parliamentary elections in autumn 2008. The proposal was made by the President to avoid the expense, both to the national budget and political parties and candidates, of holding two national elections at separate times in a one-year period.

In 2004, following the Rose Revolution, the Constitution of Georgia was amended, creating the post of Prime Minister to serve as the head of government. The Prime Minister appoints members of the government subject to the approval of the President.

Parliament

Legislative power in Georgia is vested in Parliament. Parliament adopts laws, which have the highest authority in the hierarchy of normative acts in Georgia after the Georgian constitution, constitutional treaties and international treaties. Parliament is a unicameral body with 235 members. According to the constitution, Parliament is the supreme representative body of the country exercising legislative power. It determines the principal directions of domestic and foreign policy, exercises control over the activity of the government within the framework determined by the constitution and discharges other powers.

At present, the National Movement-Democrats party holds the overwhelming majority of seats in Parliament. Other principal political parties in Georgia include the Rightist Opposition (including the New Right and Industry Will Save Georgia), Labour Party, Conservative Party, Republican Party and Freedom Party. The members of the Parliament are elected by popular vote for a term of four years. The last parliamentary elections in Georgia were held on 28 March 2004, and the next parliamentary elections are due to be held in the autumn of 2008, whereby the number of members of Parliament will be reduced to 150.

Judicial System

The judicial system in Georgia consists of the district (city) courts, appellate courts and the Supreme Court of Georgia and the Constitutional Court. District (city) courts, appellate courts and the Supreme Court of Georgia have jurisdiction over civil, criminal and administrative matters. District (city) courts are courts of first instance in districts and cities and the appellate courts are the courts of second instance and consider appeals of the decisions of district (city) courts. The Supreme Court is the third and last (cassation) instance court, having jurisdiction over the entire territory of Georgia, and supervises the district (city) and appellate courts of Georgia. The Constitutional Court of Georgia was established in 1996 and has exclusive jurisdiction over constitutional matters.

International Relations

Georgia is a member of a number of international organisations, including the United Nations, the IMF, the World Bank, the International Development Association, the Council of Europe, the EBRD, the WTO, the Commonwealth of Independent States, the GUAM Organisation for Democracy and Economic Development and the Black Sea Economic Cooperation Organisation. Georgia pursues the objective of becoming a member of NATO and has expressed a long-term ambition of attaining EU membership.

As of 31 December 2006, Georgia was a party to approximately 350 multilateral treaties and bilateral treaties including the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

Russia

Relations with Russia have been strained since Georgia gained independence in 1991. Russia has historically been one of the principal trading partners of Georgia and Georgia’s predominant supplier of natural gas. Since the Rose Revolution, Georgia has taken steps to diversify its energy sources and reduce its dependence on Russia for its gas supply. An existing gas pipeline from neighbouring Azerbaijan, with annual capacity of approximately 3.5 billion cubic metres, has recently been renovated. Additionally, President Saakashvili has promoted Georgia as a transit route for supplying Central Asian oil and gas to Europe. The Shah-Deniz gas pipeline, with an estimated annual capacity of 6.6 billion cubic metres, is expected to become operational in 2007. Georgia’s annual gas consumption has been estimated at approximately 2.0 billion cubic metres per year. For 2007, the purchase price for Russian gas has been increased from the current U.S.$110.0 per 1,000 cubic meters to U.S.$235.0 per 1,000 cubic meters.

Georgia imported approximately 600 million kw/h of electricity in 2005, of which approximately 53.0% was imported from Russia, according to Georgian Wholesale Energy Market. High voltage lines connect Georgia to Azerbaijan, Armenia and Turkey, in addition to Russia.

Historically, Russia has maintained a continued military presence in Georgia. A 1999 agreement entered between Georgia and Russia called for the closing of two of Russia's four military bases in Georgia. While an agreement entered into in 2005 establishes a timetable for Russia to withdraw from the two remaining military bases in Georgia by 2008, the Russian Ministry of Defence has announced that the withdrawal could be completed as early as 2007. It has been alleged that a Russian military presence remains in Gudauta in Abkhazia. In July 2006, the Georgian Parliament called for the Russian peacekeepers in Abkhazia and South Ossetia to be replaced entirely by an international force. Currently, the UN operates a military observer mission alongside Russian peacekeepers in Abkhazia.

In the spring of 2006, Russia instituted a ban on the import of Georgian wine, a number of Georgian brands of mineral water and agricultural produce into Russia, in each case on the basis that the products failed to meet Russian quality standards.

See also "–History and Political Developments Since Independence–Recent Political Developments" above.

United States

The United States has maintained positive relations with Georgia since 1992, and U.S. interest in Georgia increased substantially with the signing of international oil and gas pipeline agreements in the 1990s, designed to supply the West with oil and gas from the Caspian Sea, including via the BTC and Shah-Deniz pipelines. Because of its strategic location, U.S. interest in Georgia as a national security partner increased after 11 September 2001 and has increased further since the election of Mr. Saakashvili. In his most recent meeting with President Saakashvili at the White House, which took place on 5 July 2006, President Bush, who visited Georgia in May 2005, publicly reiterated his administration's support for Georgia's accession to NATO membership. The United States has contributed to the strengthening of Georgia's defense capabilities through the funding and implementation of the Georgia Train and Equip Program. Currently, approximately 850 Georgian troops serve in Iraq.

European Union

The Georgian government has been seeking involvement from the EU in resolving the status of Abkhazia and South Ossetia. The text of Georgia's Action Plan with the EU under the European Neighbourhood Policy has been agreed. In May 2006 Georgia and the EU concluded a third round of negotiations on the Action Plan. Georgia has expressed a long-term ambition of attaining EU membership.

Since 1999, Georgia has been a beneficiary of the EU Generalized System of Preferences. Georgia has also been a beneficiary of the GSP+ programme since 2005. GSP+ permits Georgia to export up to 7,200 different product categories to the EU at a zero customs tariff rate.

NATO

The Georgian government has stated that it expects Georgia to join NATO by the end of 2008. On 21 September 2006, Georgia was awarded an "Intensified Dialogue" status by NATO pursuant to which Georgia will have access to a more intense political exchange with NATO on its membership aspirations and relevant reforms, without prejudice to an eventual decision on further progress towards membership.

Other Regional Relationships

Georgia retains strong political and economic relationships with its neighbouring countries. In 1997 a regional group consisting of Georgia, Ukraine, Azerbaijan, Moldova and at that time Uzbekistan, the later leaving the organisation shortly thereafter, established GUAM with the aim of cooperation in the areas of energy, transport, trade and economy, information technology, culture, science and education, tourism, and the fight against terrorism, organized crime and drug trafficking. In May 2006, GUAM increased its scope to include the establishment of democratic values, stable development, intensification of European integration to create a common security space and the expansion of economic and humanitarian cooperation among the four participating states. This recent increase in the scope of GUAM has further strained the member countries' relationships with Russia, on the basis that GUAM is viewed as a competitor organisation to the CIS. Unofficial sources in Ukraine and Moldova have implied that these countries may review their continued membership of the CIS but there have been no official announcements to this effect.

Georgia also cooperates with its neighbouring countries as part of the BSEC organisation, which was launched in 1992 by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. One of the basic objectives of the BSEC is to ensure regional peace, stability and prosperity, and encourage friendly and good-neighbourly relations. The 11 participating states further agreed to foster economic cooperation and cooperation with regional initiatives in a manner which does not contravene their obligations and does not prevent the promotion of relations with third parties, including international organisations, as well as the European Union and cooperation within regional initiatives. In 1999, the organisation gained international legal recognition as a regional economic organisation; however in practice it remains no more than a regional discussion forum.

Georgia maintains strong relations with Turkey, both commercially and politically. Turkey recently removed visa requirements for Georgian nationals and there is a significant amount of Turkish investment in Georgia, including in the current reconstruction of airports in Tbilisi and Batumi. Georgia continues to cooperate with Turkey in the fields of trade, transportation and security. In addition, Georgia has cooperated with both Azerbaijan and Turkey in relation to a number of oil and gas pipelines (both completed and under construction) which are transiting such countries. Negotiations are currently underway with the governments of Turkey and Azerbaijan to enable Georgia to purchase the bulk of its natural gas needs from the Shah-Deniz pipeline.

Economy of Georgia

Principal Sectors of the Economy

Georgia has traditionally specialised in the cultivation and export of agricultural products, such as grapes, citrus fruits, vegetables and hazelnuts. The share of agricultural output in GDP declined significantly after independence, as the services, trade, construction, telecommunications and financial services sectors developed rapidly, and accounted for approximately 12.0% of GDP in 2005 compared with approximately 35.0% of GDP in 1995. Georgia's relatively small industrial sector, which accounted for approximately 16.0% of GDP in 2005, is engaged in food processing and produces alcoholic and non-alcoholic beverages, metals, machinery, aircraft, rail cars and hydrofoil vessels and chemicals. Georgia has substantial manganese deposits with total reserves estimated at 222.0 million tonnes. It also has reserves of copper (estimated at 341,700 tonnes) and gold (37,600 kilograms), as well as substantial mineral water and hydro sources.

Georgia imports a significant amount of its energy needs, including natural gas and oil products. The government has undertaken effective restructuring and strengthening of the energy sector, through modernisation, privatization and diversification of energy sources. There are a number of energy projects to utilise Georgia's extensive hydropower resources. It is expected that, with further investment in hydropower generation and the completion of upgrades to high voltage lines to Turkey and other neighbouring countries, Georgia will become a net exporter of electricity in the future.

Georgia has two main seaports on the Black Sea, at Poti and Batumi. Railway-ferry lines from the Batumi and Poti Black Sea ports directly connect the Caucasus and Central Asia with the Black Sea regions. The Georgian railway is one of the crucial links in Eurasian transit and serves as a short-cut linking Europe and Central Asia. Georgia has approximately 20,200 kilometres of public roads, including 1,500 kilometres of international roads. Most roads of international importance were reconstructed and/or rehabilitated in 2005 and 2006.

Recent Economic Developments

Following a period of economic collapse in the early 1990s and the impact of the financial crisis in Russia in 1998, with the help of the IMF and the World Bank Georgia has made substantial economic progress since 2000, achieving strong GDP growth and reducing inflation to below 10.0%. The Saakashvili government has reformed and simplified the tax and customs codes, improved tax administration and enforcement and fought corruption. In addition, the reinvigorated privatisation process has been successful, supplementing government expenditures on infrastructure, defence and poverty reduction.

Georgia's rapid economic reforms have been recognised internationally. Georgia is significantly ahead of its CIS peer countries in the Heritage Foundation's 2006 Index of Economic Freedom and is ahead of the majority of its CIS peer countries for many of the 2005 EBRD Transition Indicators. In the World Bank league tables measuring the ease of doing business, Georgia had the largest improvement in its ranking from 2005 to 2006 of any country.

The construction of the BTC oil pipeline, which began in 2002 and was completed in July 2006, has played an important role in the development of the Georgian economy over the past several years. The construction of the BTC oil pipeline and the Shah-Deniz pipeline, scheduled for completion in 2007, have attracted significant foreign investment and created a large number of new jobs.

The real GDP growth rate in Georgia in 2005 was 9.3%. Growth was mainly due to the development of the financial, communications and construction sectors and was supported by a rebound in agricultural production, a more stable electricity supply and continued growth in manufacturing (especially food processing). In the nine months ended 30 September 2006, the real GDP growth rate was 8.6%. Certain members of the government have estimated in recent media interviews the aggregate potential impact of the recent Russian sanctions will amount to 1.0% to 1.5% of GDP (not including the impact of the earlier Russian ban on the Georgian wine, mineral water and agricultural produce of approximately 1.0% of GDP, as estimated by the IMF).

Fiscal Policy

In common with other CIS countries, Georgia's fiscal weakness has traditionally been attributable in part to poor revenue collection. The government has undertaken comprehensive reforms to streamline the tax code and improve fiscal management, to downsize and overhaul the civil service, to reduce government intervention in the economy and to improve the business climate. This has brought about a reduction in the budget deficit (on a cash basis) to 0.1% of GDP (GEL 9.0 million (U.S.$5.0 million)) in 2005. The tax-to-GDP ratio increased from 18.2% in 2004 to 19.8% in 2005 which was mainly attributable to improvements in administration. The 2006 budget forecasts a deficit-to-GDP ratio of 2.6% on a cash basis, and of 2.2% on a commitment basis, and projects tax revenues at 19.3% of GDP.

According to the 2006 budget, the fiscal deficit is expected to remain broadly unchanged, while social expenditures are projected to increase, reflecting higher minimum pensions and increased spending in several key areas, particularly on education and poverty benefits, as compared to 2005. A total of GEL 35.0 million (U.S.$20.0 million) has been allocated to compensate low-income households for higher energy tariffs. The budget also provides for the elimination of all outstanding wage and pension arrears.

Economic Data

The following table sets out key economic indicators for Georgia for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2003	2004	2005	2006
Economic Activity				
Nominal GDP (U.S.$ million)[(1)(3)]	3,983	5,117	6,420	5,483
Nominal GDP (GEL million)[(1)]	8,564	9,824	11,621	9,814
Real GDP growth (y-o-y; %)[(2)(4)]	11.1	5.9	9.3	8.6
GDP per capita (U.S.$)[(1)(5)]	917	1,186	1,485	n/a[(6)]
Population (end of period, in millions)	4,343	4,315	4,322	4,401
Unemployment (%)[(1)]	11.5	12.6	13.8	n/a[(6)]
Inflation				
CPI (period end; %)[(2)(7)]	7.0	7.5	6.2	6.0
External Balance				
Total exports (FOB; U.S.$ million)[(1)]	1,273	1,631	2,168	1,867
Total imports (CIF; U.S.$ million)[(1)]	1,856	2,491	3,312	3,231
Trade balance (U.S.$ million)[(1)]	(636)	(916)	(1,214)	(1,365)
Current account balance (U.S.$ million)[(1)]	(368)	(347)	(689)	(876)
Current account balance as a % of GDP[(8)]	(9.2)	(6.8)	(10.7)	(16.0)
Capital account balance (U.S.$ million)[(1)]	394	346	677	814
Net FDI (U.S.$ million)[(1)]	336	490	539	712
Net FDI as a % of GDP[(9)]	6.1	8.9	9.8	13.0
Official reserves (U.S.$ million)[(2)]	192	384	475	631
Import cover[(2)(10)]	38	56	52	70
Fiscal Balance and Debt Indicators				
State budget reserves (GEL million)[(1)]	956	1,773	2,608	2,662
State budget expenditures (GEL million)[(1)]	1,119	1,924	2,617	2,578
Budget balance (GEL million)[(1)]	(163)	(151)	(9)	84
Budget balance as a % of GDP[(11)]	(1.9)	(1.5)	(0.1)	0.9
Foreign debt (U.S.$ million)[(2)]	1,754	1,762	1,651	1,656
Foreign debt as a % of GDP[(12)]	44.0	34.4	25.7	n/a[(6)]
Exchange Rate				
GEL: U.S.$ (average)[(1)]	2.08	1.83	1.79	1.74

Notes:
(1) Source: Ministry of Economic Development of Georgia. Department of Statistics of Georgia.
(2) Source: NBG.
(3) Converted to U.S. dollars at an exchange rate of GEL 1.79 per U.S.$1.00.
(4) The real GDP percentage change for a particular year indicates the percentage change from the pervious year.
(5) Calculated as nominal GDP in U.S. dollars divided by population in millions.
(6) Not meaningful or unavailable for the period covered.
(7) Period end CPI for a particular year indicates the percentage change in CPI (period end) in local currency over the previous year.
(8) Calculated as current account balance in U.S. dollars divided by nominal GDP in U.S. dollars.
(9) Calculated as foreign direct investment in U.S. dollars divided by nominal GDP in U.S. dollars.
(10) Calculated as total imports in U.S. dollars divided by official reserves in U.S. dollars and multiplied by 365.
(11) Calculated as budget balance in GEL divided by nominal GDP in GEL.
(12) Calculated as foreign debt in U.S. dollars divided by nominal GDP in U.S. dollars.

Inflation

Following a period of hyperinflation in the early 1990s the economy has largely stabilised. Since 1999 inflation has been in the single-digit range. The period end annual inflation rate (CPI) was 7.0% in 2003, 7.5% in 2004 and 6.2% in 2005. The increase in inflation in 2005 was a result of stronger economic growth, increased budgetary spending, foreign currency inflows, higher food and energy prices and an increase in excise taxes on alcohol, petrol and tobacco.

Monetary System

The Lari was introduced in 1995, marking the beginning of an IMF-backed stabilisation programme. Devaluation of the Lari occurred following the Russian financial crisis in 1998, but since 2003 the Lari has gradually strengthened against the U.S. dollar. The strength of the Lari reflects rising foreign-currency inflows and increased budget revenue. Gross foreign reserves increased from U.S.$192.0 million in 2003 to U.S.$930.8 million in 2006. This level of foreign reserves is equal to approximately two months of non-pipeline imports in 2005. The Georgian government targets a further reserve accumulation of approximately two months of imports.

International Trade

Georgia's major trade partners are Turkey, Azerbaijan, Russia, Turkmenistan, Armenia, Bulgaria, United States and Ukraine. Georgian exports primarily comprise commodities such as ferroalloys, copper, gold and fertilisers, fast-moving consumer goods, such as wine, mineral water and other beverages, hazelnuts and aircraft and space parts and services. Additionally, due to Georgia's geographic location, the transport and logistics sector has become a significant generator of export revenues.

Georgian imports primarily comprise natural gas, oil products, capital goods, vehicles, consumer goods and pharmaceuticals. Additionally, Georgia remains a net importer of electricity, despite considerable potential for hydropower generation, as currently no more than 20.0% of this capacity is used. According to data published by the International Energy Agency, with ratios of 0.73 tonnes of oil equivalent per GDP and 0.63 tonnes of oil equivalent per capita in 2005, the Georgian economy is the least energy-intensive economy in the CIS.

The following tables set out Georgia's exports and imports by product and by country for the periods indicated.

Export by product	**11 months ended 30 November 2006**	
	(U.S.$ millions)	*(percentage)*
Ferrous metals	147.9	17.1
Beverages, spirits and vinegar	110.1	12.8
Ferrous and non-ferrous ores	72.0	8.3
Vessels and aircraft	62.3	7.2
Vegetables and fruits	50.8	5.9
Vehicles and their parts	53.2	6.2
Equipment and mechanical machinery and their parts	41.3	4.8
Gems and precious stones	47.2	5.5
Fertilisers	42.1	4.9
Copper	26.7	3.1
Oil and gas	26.9	3.1
Cement	26.1	3.0
Other	156.2	18
Total Export	**862.8**	**100.0**

Source: Department of Statistics of Georgia.

Export by country	**11 months ended 30 November 2006**	
	(U.S.$ millions)	*(percentage)*
Turkey	107.4	12.4
Azerbaijan	77.4	9.0
Russia	72.4	8.4
Turkmenistan	65.9	8.2
Armenia	70.4	7.6
Bulgaria	57.1	7.2
United States	62.1	6.6
Ukraine	49.9	5.8
Canada	43.7	5.1
Other	256.5	29.7
Total Export	**862.8**	**100.0**

Source: Department of Statistics of Georgia.

Import by product	11 months ended 30 November 2006	
	(U.S.$ millions)	*(percentage)*
Oil and gas	647.4	19.8
Vehicles	374.6	11.5
Equipment and mechanical machinery and their parts	302.5	9.3
Electrical machinery and their parts	246.4	7.5
Ferrous metal products	87.7	2.7
Pharmaceuticals	109.3	3.3
Cereals	96.5	3.0
Plastics	92.5	2.8
Sugar	71.7	2.2
Ferrous metals	70.0	2.1
Other	1,170.0	35.8
Total	**3,268.6**	**100.0**

Source: Department of Statistics of Georgia.

Import by countries	11 months ended 30 November 2006	
	(U.S.$ millions)	*(percentage)*
Russia	504.4	15.4
Turkey	460.1	14.1
Germany	310.0	9.5
Ukraine	288.8	8.8
Azerbaijan	282.1	8.6
Turkmenistan	97.9	3.0
United States	104.4	3.2
Bulgaria	106.5	3.3
United Arab Emirates	93.5	2.9
Italy	92.2	2.8
China	89.1	2.7
Netherlands	66.5	2.0
Other	773.1	23.7
Total Import	**3,268.6**	**100.0**

Source: Department of Statistics of Georgia.

In 2005, Georgia's trade deficit increased to 19.0% of GDP up from 18.0% of GDP in 2004 and 15.9% of GDP in 2003. These increases are principally a result of increased capital imports related to pipeline construction, as well as strengthening local consumer demand. Georgia's current account deficit in 2005 was 10.8% of GDP, compared to 6.7% and 9.3% in 2004 and 2003, respectively, while the net direct foreign investment was broadly comparable at 8.4%, 9.5% and 8.4% of GDP, respectively in 2005, 2004 and 2003.

Georgia's new trade liberalisation strategy is seen by the government as a key step towards strengthening the country's competitiveness and integration into the global economy. The new Customs Code provides for the progressive reduction of the highest tariff rate from 30.0% to 5.0% in 2007 and the elimination of all import tariffs, (except important tariffs related to agricultural products), which reduction went into effect in September 2006.

In August 2006, Georgia, already a beneficiary of the GSP+ trade regime with the EU (which does not tax exports of up to 7,200 product categories from Georgia to the EU), proposed to conclude a free-trade agreement ("**FTA**") with the European Union in order to boost its exports and help to diversify its trade. The formal negotiations, which started in 2006, concentrate on Georgia's ability to meet FTA terms, in particular the lifting of non-tariff barriers and the recognition of quality standards for Georgian products, as well as quality issues surrounding liberalisation of trade in services. Additionally, Georgia has attained a GSP+ status from Turkey.

Foreign Investment

Foreign direct investment ("**FDI**") has been an important source of financing for the Georgian economy since the Rose Revolution. Net FDI inflows have increased sharply year-on-year from U.S.$336.0 million, U.S.$490.0 million, and U.S.$539.0 million in 2003, 2004 and 2005, respectively. The increases in net FDI were attributable to the construction of the BTC oil pipeline and the SCP natural gas pipeline, as well as increased investment in the domestic economy. According to the Statistics Department of Georgia, FDI in the first half of 2006 amounted to U.S.$248.0 million.

Georgia relies heavily on net FDI to cover its current account deficit. In 2004 net FDI exceeded the current account deficit for the first time since 1997. In 2005, net FDI was no longer sufficient to cover the current account deficit in 2005 as the BTC project was largely completed, despite the growth in non-pipeline FDI. A number of structural reforms, which began in 2005, are designed to improve the business climate and attract both local and foreign investors. These include comprehensive tax reforms effective since January 2005, a financial sector development strategy for 2006-2009 and a new system of business licensing effective from June 2005, reducing the number of types of businesses for which a licence is required from 900 to 150, as well as simplifying business licence issuance procedures, and instituting a single window service for registering a company.

Wages and Income

The average monthly wage in Georgia has grown rapidly over the last few years and reached GEL 204.0 in 2004 as compared to GEL 84.0 in 2000. Higher wages are a result of the government's decision to raise public sector pay in order to attract and retain skilled personnel and reduce incentives for corruption. Georgia has a minimum wage for state workers but not for the private sector.

While Georgia's GDP per capita was U.S.$1,416 in 2005, the IMF estimated that, on a PPP-adjusted basis, GDP per capita in 2005 was U.S.$3,586.

Privatisation

Georgia began implementing a privatisation programme in 1992 with the objectives of increasing the private sector's share of the economy, generating FDI and contributing funds to the state budget. To date, over 15,000 enterprises have been privatised.

The vast majority of privatisations (approximately 90.0%) have been carried out through auctions, with invitations to tender representing only small number of privatisations and a significant part of the state enterprises were privatised through voucher auctions. All state banks were privatised in the mid-1990s. In 2005, Georgia collected approximately U.S.$230.0 million, or 3.6% of GDP, in privatisation receipts according to IMF data. Major privatisations in 2005 included the sale of Ocean Shipping Company for U.S.$93.0 million, the sale of the Rustavi metallurgical plant for U.S.$27.0 million and the sale of Madneuli, a producer of copper and gold, for U.S.$36.0 million (excluding the payment of debt to the state of U.S.$16.0 million) in November 2005.

The privatisation programme for 2006 has been focused on the power generation and distribution, transport and communications sectors. The total budgeted revenues were U.S.$186.0 million, or 2.6% of GDP, for the year but this budget has been substantially exceeded to date. The government announced the privatisation of six hydropower plants and three distribution companies in the spring of 2006. In June 2006, Energo-Pro, a Czech-based energy operator and investment company, was announced the winner of the auction for the majority of these assets, with the aggregate consideration of U.S.$312.0 million (compared with the aggregate reserve price of U.S.$132.0 million). Energo-Pro and the government are in the process of negotiating definitive agreements with regard to this transaction, although on substantially different terms than those originally announced. In May 2006, the government sold the United Telecommunication Company of Georgia ("**UTCG**") to a Kazakh-Georgian consortium for U.S.$92.0 million. Also in May 2006, the government sold Tbilgazi, the gas distribution company of Tbilisi, to the Kazakh state-owned KazTransGaz Company, for U.S.$12.5 million and an investment commitment of over U.S.$80.0 million over the following five years. In the same month Green Oak Group won a tender for the 49-year management of the Batumi Sea Trading Port for approximately U.S.$90.0 million. In addition, Kazakh investors have purchased from the state approximately 20 hotels on the Black Sea Shore. In December 2006, the government concluded the sale of a manganese mine, the largest ferroalloy plant and a 80MW hydropower plant in a series of interrelated transactions resulting in direct and indirect budgetary revenues for Georgia in excess of $100.0 million.

In order to consolidate and improve the management and coordination of the energy sector, the government announced in March 2006 that it would merge three state-run energy companies, including Georgian International Gas Corporation ("**GIGC**"), the Georgian International Oil Corporation ("**GIOC**") and the oil company SakNavtobi.

Although the privatisation of large enterprises is largely complete in Georgia (with notable exceptions of the Georgian Railway and Georgian Post, both of which require significant restructuring), numerous smaller auctions are carried out each month, with information aggressively disseminated to the investing public through the printed media and the www.privatisation.ge website.

Taxes

Comprehensive tax reforms were enacted at the beginning of 2005 providing for a significant simplification of the tax code. The number of taxes was reduced from 22 to seven; personal income tax rates ranging from 12.0% to 20.0% were unified under a single flat rate of 12.0% effective from January 2005; the payroll tax rate was reduced from 33.0% to 20.0%; the value-added tax rate was reduced from 20.0% to 18.0%, the lowest rate among CIS countries; and customs tariffs were eliminated in 2006 on up to 95% of product categories. To offset any revenue losses, the government increased excise tax rates on oil, tobacco, alcohol and automobiles, and broadened the bases for VAT and profit taxes by reducing tax exemptions. The corporate income tax rate in Georgia is 20.0%.

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