BANK OF GEORGIA

Joint Stock Company Bank of Georgia

(a joint stock company incorporated in Georgia)

Offering of 7,721,919 Shares in the form of Global Depositary Receipts

Offer Price: US$18 per Global Depositary Receipt

This Prospectus relates to an offering by Joint Stock Company Bank of Georgia ("Bank of Georgia"), a joint stock company incorporated in the country of Georgia (located in the Caucasus) ("Georgia"), of 6,581,919 Shares, each with a nominal value of GEL 1.00 per Share (the "Shares") and by certain of Bank of Georgia's shareholders (the "Selling Shareholders") of 1,140,000 Shares (collectively, the "Offering"), in the form of global depositary receipts ("GDRs"), each GDR representing one Share of Bank of Georgia. The Offering consists of an international offering of GDRs outside the United States to certain persons in offshore transactions in reliance on Regulation S (the "Regulation S GDRs") of the United States Securities Act of 1933, as amended (the "Securities Act").

Concurrently with the Offering, Bank of Georgia and The Bank of New York, as depositary (the "Depositary"), have established a depositary receipt facility for the issuance of Rule 144A global depositary receipts ("Rule 144A GDRs"), although no Rule 144A GDRs will be issued on the Closing Date (as defined below) or are otherwise being offered in the Offering, and references to the GDRs shall therefore be construed accordingly. References in this Prospectus to the GDRs shall, where the context allows, be deemed to include references to any Rule 144A GDRs that are issued in the future.

Bank of Georgia and one of the Selling Shareholders have granted ING Bank N.V., London Branch ("ING" or the "Lead Manager"), an option (the "Over-Allotment Option") exercisable until 30 days after the announcement of the Offer Price on 24 November 2006, to purchase or procure purchasers for up to 1,158,288 additional Shares in the form of GDRs (the "Additional GDRs") at the Offer Price referred to above and on the terms and conditions of the Offering and solely in order to cover over-allotments, if any, and to cover short positions relating to stabilisation activities.

The Shares are listed on the Georgian Stock Exchange (the "GSE") under the symbol "GEB". Prior to the Offering described herein, there has been no market for the GDRs and only a limited public market for the Shares. The trading price of the Shares on the GSE will not necessarily be related to the offering price of the Shares in the form of GDRs.

Applications have been made (i) to the UK Financial Services Authority ("UK FSA") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA") for a listing of up to 25,335,619 GDRs, consisting of up to 7,721,919 GDRs pursuant to a block listing to be issued on or around 28 November 2006 (the "Closing Date"), up to 1,158,288 Additional GDRs to be issued pursuant to the Over-Allotment Option, as described herein, and up to 16,455,412 additional GDRs to be issued from time to time against the deposit of shares of Bank of Georgia with the Depositary, to be admitted to the official list of the UK Listing Authority (the "Official List") and (ii) to the London Stock Exchange plc (the "LSE") for the GDRs to be admitted to trading under the symbol "BGEO" on the LSE's EEA Regulated Market (as defined in the Investment Services Directive 91/22/EC) (the "Regulated Market"). Notwithstanding that application for such a block listing will be made, only 7,721,919 GDRs will be issued on the Closing Date. Application has also been made for eligibility for trading of the Rule 144A GDRs (to the extent that any are issued in the future) on the PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). It is expected that conditional trading in the GDRs will commence on a when and if issued basis on or about 24 November 2006 and that unconditional trading in the GDRs on the LSE will commence on 29 November 2006. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission to the Official List or to trading on the LSE does not take place and will be at the sole risk of the parties concerned.**

INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. See "Risk Factors" beginning on page 9. The GDRs are of a specialist nature and should only be bought and traded by sophisticated investors who fully appreciate the significance of the risks involved.

The GDRs offered hereby have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the GDRs are being sold outside of the United States to certain persons in offshore transactions in reliance on Regulation S.

The GDRs offered hereby are offered severally by the Managers as named in "Subscription and Sale" (the "Managers") when, as and if delivered to and accepted by the Managers and subject to their right to reject orders in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR") registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York, London branch, as common depositary for Euroclear Bank N.V./S.A. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. No Rule 144A GDRs will be sold in the Offering. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg, and their direct and indirect participants.

Global Coordinator, Lead Manager and Bookrunner

ING

Co-Lead Manager

CA IB

Selling Agent

Galt & Taggart Securities

The date of this Prospectus is 24 November 2006

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus is based on information provided by Bank of Georgia and other sources, believed by Bank of Georgia to be reliable, solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. ING, as the Lead Manager, and their affiliates and any person acting on their behalf are not responsible for and are not making any representation or warranty, express or implied, to prospective investors concerning future performance of Bank of Georgia and its consolidated subsidiaries (together, the "Bank") or the accuracy or completeness of this Prospectus.

This Prospectus, including the financial information included herein, comprises a prospectus given in compliance with the Prospectus Rules of the UK Listing Authority (the "UKLA") made under section 73A of the FSMA, for the purpose of giving information with regard to the Bank and the GDRs in connection with the application for admission of the GDRs to the Official List of the UKLA and to trading on the Regulated Market.

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

In making an investment decision regarding the GDRs offered hereby, prospective investors must rely on their own examination of the Bank and the terms of the Offering, including the merits and risks involved. Bank of Georgia has not, and ING, on behalf of the Managers, has not, authorised any other person to provide different information. Prospective investors should not rely on any different or inconsistent information provided by any third party. Prospective investors should assume that the information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only. The business, financial condition, results of operations and the information of the Bank set forth in this Prospectus may have changed since that date.

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

ING is acting exclusively for Bank of Georgia and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to its respective clients or for providing advice in relation to the Offering.

Bank of Georgia obtained the market data used in this Prospectus from internal surveys, industry sources and currently available information. The main source for market information used in this Prospectus is 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 and the International Monetary Fund (the "IMF"). Market information on the price of the Bank's ordinary shares was obtained from the GSE. Bank of Georgia accepts responsibility for having correctly reproduced information obtained from industry publications or public sources, and, so far as Bank of Georgia is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, prospective investors should keep in mind that Bank of Georgia has not independently verified information it has obtained from industry and government sources. Certain market share information and other statements in this Prospectus and Bank of Georgia's position relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect Bank of Georgia's best estimates based upon information obtained from trade and business organisations and associations and other contacts within relevant industries. This information from Bank of Georgia's internal estimates and surveys has not been verified by any independent sources.

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

ING reserves the right to reject any offer to purchase the GDRs in whole or in part and to sell to any prospective investor less than the full amount of the GDRs sought by such investor.

In connection with the Offering, ING and any affiliate acting as an investor for its own account may take up the GDRs and in that capacity may retain, purchase or sell for its own account such securities and any of Bank of Georgia's securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, reference in this document to the GDRs being offered or placed should be read as including any offering or placement of securities to ING and any affiliate acting in such capacity. ING does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Prospectus and the offer and sale of the GDRs in certain jurisdictions may be restricted by law. Prospective investors must inform themselves about, and observe, any such restrictions. See "Terms and Conditions of the Global Depositary Receipts", "Transfer Restrictions" and "Subscription and Sale" elsewhere in this Prospectus. Prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which a prospective investor purchases, offers or sells the GDRs or possesses or distributes this Prospectus and must obtain any consent, approval or permission required for the respective purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction in which the prospective investor makes such purchases, offers or sales. Bank of Georgia is not, and the Managers are not, making any offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

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

NOTICE TO UK AND EEA INVESTORS

This Prospectus and the Offering are only addressed to and directed to persons in member states of the European Economic Area ("EEA"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors"). In addition, in the United Kingdom (the "UK"), this Prospectus is being distributed only to, and is directed only at Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order") and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, or (ii) or to whom it may otherwise lawfully be communicated (all such persons together being referred to as relevant persons). This Prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA other than in the United Kingdom, by persons who are not Qualified Investors. The GDRs are only available to, and any investment or investment activity to which this Prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the EEA other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

This Prospectus has been prepared on the basis that once it has been approved under the Prospectus Directive all offers of GDRs will be made pursuant to an exemption under the Prospectus Directive as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of GDRs. Accordingly, any person making or intending to make any offer within the EEA of GDRs which are the subject of the placement contemplated herein should only do so in circumstances in which no obligation arises for Bank of Georgia or the Managers to produce a prospectus for such offer. Bank of Georgia and the Managers have not authorised and do not authorise the making of any offer of GDRs through any financial intermediary, other than offers made which constitute the final placement of GDRs contemplated herein.

NOTICE TO GEORGIAN INVESTORS

In Georgia, the GDRs 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 physical or legal person who is sophisticated in the theory and practice of investing and falls within the definition of "Sophisticated Investor" within the meaning of Article 2.8 of the Law of Georgia on Securities Market.

STABILISATION

In connection with the Offering, ING or any person acting on its behalf may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that ING or any person acting on its behalf will undertake stabilisation action. Any such stabilisation may begin on the date on which adequate public disclosure of the final price of the GDRs is made and, if commenced, may be discontinued at any time, but it must end no later than 30 days after the announcement of the Offer Price.

LIMITATION ON SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Bank of Georgia is incorporated under the laws of Georgia, and all or a substantial portion of the assets of the Bank are located in Georgia. In addition, most of the members of Bank of Georgia's Management Board ("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 on its Management and 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.

Foreign court judgements (including judgements of UK courts) are recognised and enforceable in Georgia under Article 68 and Article 70 of Law of Georgia on International Private Law under certain conditions. Generally, foreign court judgements are 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 several other less relevant conditions are not satisfied. No treaty exists between the United Kingdom and Georgia for the reciprocal enforcement of foreign court judgements. Greater assurance of the recognition and enforcement of UK judgements would be provided if Georgia and the UK had a treaty on mutual recognition and enforcement of court judgements, which they do not.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Business." Bank of Georgia may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning Bank of Georgia's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development, business strategy and the trends the Bank anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors," as well as those included elsewhere in this Prospectus. 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.

When relying on forward-looking statements, prospective investors 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, Bank of Georgia does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise other than as required by applicable laws or the Listing Rules or Prospectus Rules of the UKLA. Bank of Georgia does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to Bank of Georgia or persons acting on Bank of Georgia's behalf.

PRESENTATION OF FINANCIAL INFORMATION

The financial information of the Bank set forth herein has, unless otherwise indicated, been derived from the Bank's audited consolidated balance sheets and consolidated statements of operations, cash flows and changes in equity as of and for the years ended 31 December 2003, 2004 and 2005 (the "Annual Financial Statements") and unaudited consolidated financial statements as of 30 June 2006 and for the six months ended 30 June 2005 and 2006 (the "Interim Financial Statements") set forth elsewhere in this Prospectus, beginning on page F-1 (together, the "Consolidated Financial Statements"). The Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), formerly referred to as International Accounting Standards ("IAS"). The Consolidated Financial Statements as of and for the years ended 31 December 2003, 2004 and 2005 were audited by the Bank's independent auditors, Ernst & Young Audit LLC ("E&Y"), in accordance with International Standards on Auditing ("ISA").

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

CURRENCY AND EXCHANGE RATES

In this Prospectus, all references to "Lari" and "GEL" are to the lawful currency of Georgia; all references to "dollars," "U.S. dollars" and "US$" are to the lawful currency of the United States of America; all references to "euros" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references to "Russian roubles" or "roubles" are to the lawful currency of the Russian Federation; and all references to "pounds sterling" or "GBP" are to the lawful currency of the United Kingdom.

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

	High	Low	Average	Period End
	(Lari per U.S. dollar)			
2006 (to and including 31 October)	1.83	1.74	1.79	1.74
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
2001	2.18	1.98	2.07	2.06

Source: NBG.

The NBG's Lari per U.S. dollar exchange rate as reported on 31 October 2006 was GEL 1.74. See "Risk Factors — Risks Relating to the Bank's Business and Industry — Market Risks".

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

AVAILABLE INFORMATION

To the extent any Rule 144A GDRs (including any issued in exchange for GDRs) are issued in the future and for so long as such Rule 144A GDRs or the Shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Bank of Georgia will furnish, upon the request of any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information specified in paragraph (d)(4) of Rule 144A to that holder, beneficial owner or prospective purchaser unless, at the time of that request, Bank of Georgia is subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or Bank of Georgia is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore furnish the SEC certain information pursuant to Rule 12g3-2(b) under the Exchange Act).

DOCUMENTS ON DISPLAY

Copies of this Prospectus, Bank of Georgia's Charter and certain other documents will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA, from the date of this Prospectus until one month after the date of this Prospectus. In addition, this Prospectus will be available on Bank of Georgia's website.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs should be based on consideration of the Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to responsible persons in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this Prospectus before legal proceedings are initiated.

Overview

Bank of Georgia was established as a universal commercial bank in 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 September 2006, Bank of Georgia was the largest bank in Georgia based on total equity and was the second largest bank in Georgia based on total assets (with a 22.5% market share), total loans (with a 23.7% market share) and total deposits (with a 21.0% 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. The Bank'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, currently serving over 380,000 retail clients through its branch network and electronic distribution channels. 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), deposit accounts, 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 products and services, including micro-financing loans. As of 31 October 2006, Bank of Georgia had the second largest branch network in Georgia, with 98 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, and the largest ATM network in Georgia, comprising 111 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, for the nine months ended 30 September 2006, had an approximately 20.0% market share based on gross written premiums (compared to a 14.5% market share in 2005), according to information published by the Insurance State Supervision Service of Georgia.

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.

As of 30 June 2006, the Bank's total assets were GEL 715.6 million (US$403.6 million) and the Bank's total equity was GEL 106.9 million (US$60.3 million). For the six months ended 30 June 2006, the Bank's net income was GEL 11.0 million (US$6.2 million) compared to net income of GEL 13.6 million (US$7.6 million), net loss of GEL 7.3 million (US$4.0 million) and net income of GEL 9.2 million (US$4.4 million) for the years ended 31 December 2005, 2004 and 2003, respectively.

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 is 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.

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.

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 GDRs 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;
- the absence 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 GDRs and their trading market. The occurrence 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 GDRs 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 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 until 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 up to 98% of the shares in the Ukrainian bank. Bank of Georgia's purchase of the shares in the Ukrainian bank is subject to satisfactory completion of due diligence of the Ukrainian bank and reaching agreement with the shareholders of the Ukrainian bank on the terms of the acquisition, as well as obtaining required corporate, regulatory and governmental approvals. Although the terms of the acquisition have not been agreed and there can be no assurance that the acquisition will take place, the purchase price for such an acquisition could be equivalent to a significant portion of Bank of Georgia's net proceeds from this Offering. As at 31 October 2006, Bank of Georgia owned 2.82% of this Ukrainian bank and had a total investment of US$2.0 million.

On 23 October 2006, the Bank established Galt and 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 12 November 2006, BCI entered into a memorandum of understanding (the "Aldagi MOU") with the shareholders of JSC Aldagi ("Aldagi"), a leading Georgian insurance company, in respect of the prospective purchase by BCI of a 100% equity interest in Aldagi. The purchase of Aldagi by BCI is subject to satisfactory approval by the Supervisory Boards of BCI and Bank of Georgia as well as obtaining any required regulatory and government approvals. The maximum consideration payable by the Bank under the terms of the Aldagi MOU is GEL 13.2 million.

On 6 November 2006, the Bank established its Executive Equity Compensation Plan (the "EECP"). The Bank settled the trust with GEL 1.5 million. In connection with the EECP, the trust will subscribe to 850,000 Shares of Bank of Georgia in the form of restricted GDRs on or around the Closing Date. The trust is further expected to subscribe to an additional 650,000 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. See "Management and Employees—Executive Equity Compensation Plan".

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

- In March 2006, Bank of Georgia received a US$25 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 newly issued common shares of Bank of Georgia.
- In August 2006, Bank of Georgia received a US$5 million subordinated loan from a fund advised by Thames River Capital.
- In August 2006, Bank of Georgia received a US$25 million unsecured loan facility from Merrill Lynch International.
- In September 2006, Bank of Georgia received a US$25 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 newly issued common shares of Bank of Georgia.

Recent Financial Performance

The financial information in the following paragraph is unaudited. The Bank's results for an interim period are not necessarily indicative of what its results will be for the full year.

Based on the Bank's IFRS management accounts as of and for the nine months ended 30 September 2006, the Bank's total assets as of 30 September 2006 were GEL 856.7 million and its total liabilities as of such date were GEL 719.6 million, representing increases of 85.6% and 94.4%, respectively, as compared to 31 December 2005. The Bank's net income for the nine months ended 30 September 2006 was GEL 17.3 million, representing a 96.0% increase as compared to net income for the nine months ended 30 September 2005.

Summary Historical Financial Data

The financial information of the Bank set forth below has, unless otherwise indicated, been extracted or derived from the Consolidated Financial Statements prepared in accordance with IFRS, which are set forth at the end of this Prospectus, beginning on page F-1. See "Presentation of Financial and Other Information". The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the accompanying notes thereto. The results of operations for the six months ended 30 June 2006 are not necessarily indicative of what the results will be for the full year ended 31 December 2006.

Consolidated Statement of Operations Data

	Year ended 31 December				Six months ended 30 June		
	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	24,040	38,393	21,654
Interest expense	7,880	9,919	13,081	7,296	5,705	12,498	7,049
Net interest income before impairment of interest earning assets	**24,419**	**23,839**	**38,751**	**21,613**	**18,335**	**25,895**	**14,605**
Impairment of interest earning assets	4,105	20,511	6,228	3,474	3,622	7,085	3,996
Net interest income after impairment of interest earning assets	**20,314**	**3,328**	**32,523**	**18,139**	**14,713**	**18,810**	**10,609**
Fee and commissions income	11,751	13,059	16,753	9,344	7,112	11,912	6,719
Fee and commissions expense	2,895	2,745	2,385	1,330	1,065	1,665	939
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**6,047**	**10,247**	**5,780**
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**4,716**	**9,365**	**5,282**
Other non-interest expense	**21,495**	**26,772**	**41,257**	**23,010**	**18,714**	**24,185**	**13,641**
Income (loss) before income tax expense	**11,585**	**(8,130)**	**16,735**	**9,334**	**6,762**	**14,237**	**8,030**
Net income (loss) for the period	**9,154**	**(7,349)**	**13,627**	**7,600**	**6,169**	**11,026**	**6,219**
Earnings (loss) per share	**0.93**	**(0.78)**	**1.14**	**0.64**	**0.55**	**0.73**	**0.41**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Consolidated Balance Sheet Data

	As of 31 December				As of 30 June	
	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)]
Assets						
Cash and cash equivalents	43,626	102,747	57,236	31,922	108,160	61,004
Amounts due from credit institutions	16,117	25,585	33,398	18,627	47,954	27,047
Loans to customers, net	141,780	169,868	297,376	165,854	447,883	252,613
Net investment in lease	—	598	4,314	2,406	4,958	2,796
Investment securities	1,742	19,628	10,607	5,916	2,283	1,288
Property and equipment, net	20,024	27,159	35,815	19,975	48,509	27,360
Intangible assets, net	2,025	6,286	7,685	4,286	25,254	14,244
Income tax assets	—	3,407	2,570	1,433	309	174
Prepayments	—	157	455	254	3,274	1,847
Other assets	4,808	7,737	11,114	6,198	26,999	15,228
Total assets	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**
Liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	138,308	78,008
Amounts owed to customers	123,573	252,129	269,952	150,559	444,889	250,924
Debt securities issued	—	—	1,143	637	1,333	752
Income tax liabilities	771	203	2,087	1,164	2,825	1,593
Provisions	472	971	975	544	—	—
Other liabilities	428	6,075	16,078	8,967	21,337	12,034
Total liabilities	**175,481**	**307,712**	**369,108**	**205,860**	**608,692**	**343,311**
Equity						
Share capital	9,856	11,273	14,729	8,215	15,538	8,764
Share premium	4,530	13,376	32,922	18,361	37,382	21,084
Treasury shares	—	(73)	(81)	(45)	(155)	(87)
Retained earnings	24,930	23,911	37,427	20,874	47,828	26,976
Other reserves	15,325	5,492	5,369	2,994	5,313	2,997
Total equity attributable to shareholders	**54,641**	**53,979**	**90,366**	**50,400**	**105,906**	**59,734**
Minority interests	—	1,481	1,096	611	985	556
Total equity	**54,641**	**55,460**	**91,462**	**51,011**	**106,891**	**60,290**
Total liabilities and equity	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

THE OFFERING

The Issuer	Joint Stock Company Bank of Georgia.
Depositary	The Bank of New York.
The Offering	Bank of Georgia is offering 6,581,919 Shares and the Selling Shareholders are offering an aggregate of 1,140,000 Shares, each in the form of GDRs, with each GDR representing one Share. The GDRs are being offered outside the United States in offshore transactions in reliance on Regulation S. The GDRs will be delivered by the Depositary. Concurrently with the Offering, Bank of Georgia and the Depositary have established a depositary receipts facility for the issuance of Rule 144A GDRs. However, no Rule 144A GDRs will be issued on the Closing Date or are otherwise being offered in the Offering.
Selling Shareholders	Mr. Lado Gurgendize and Mr. Victor Gelovani.
The Shares	As of the date of this Prospectus, Bank of Georgia's issued share capital consists of 16,890,413 fully-paid ordinary registered shares in book-entry form with a nominal value of GEL 1.00 each. See "Description of Share Capital and Certain Requirements of Georgian Law". Immediately after the Offering, Bank of Georgia's issued share capital will consist of 24,330,620 fully-paid ordinary registered shares (assuming the Over-Allotment Option is exercised in full, but not reflecting shares issued in connection with the EECP). Bank of Georgia's authorised share capital consists of 25,335,619 ordinary shares.
The GDRs	Each GDR will represent one Share issued pursuant to the deposit agreement (the "Deposit Agreement") to be dated on or about 28 November between Bank of Georgia and the Depositary. Initially, the Regulation S GDRs will be evidenced by the Master Regulation S GDR, the Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and both Master GDRs will be issued pursuant to the Deposit Agreement. Separate certificates in definitive registered form will be issued in respect of GDRs in certain circumstances. For more information, see "Summary of Provisions Relating to the GDRs while in Master Form".
Offer Price	US$18 per GDR.
Closing Date	28 November 2006.
Over-Allotment Option	Bank of Georgia and Victor Gelovani, a Selling Shareholder, have granted to ING an option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to 1,158,288 Additional GDRs, solely to cover over-allotments, if any, in the Offering.
Lock-up	Bank of Georgia and the Selling Shareholders have also agreed that none of them nor any of its or their subsidiaries, jointly controlled entities or associates, nor any other affiliates, nor any person acting on behalf of any of them will, at any time during a period of 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period, without the prior written consent of ING, issue, offer, sell, contract to issue or sell, pledge, charge, issue or sell any option or contract to purchase or subscribe, purchase any

option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility, or otherwise transfer or dispose of or register (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option, grant, deposit, transfer, disposal or registration of), directly or indirectly, any ordinary or preferred shares of Bank of Georgia, or GDRs representing such shares, or any securities convertible or exchangeable into or exercisable for any ordinary or preferred shares of Bank of Georgia or warrants or other rights to purchase ordinary or preferred shares of Bank of Georgia or any security or financial product whose value is determined directly or indirectly by reference to the price of underlying ordinary or preferred shares of Bank of Georgia or securities convertible or exchangeable into or exercisable for ordinary or preferred shares of Bank of Georgia, including equity swaps, forward sales and options, or GDRs representing the right to receive any such securities, or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of any ordinary or preferred shares or GDRs, except as contemplated as part of the Offering described herein. In addition, the Selling Shareholders have also agreed that none of them nor any of their subsidiaries, jointly controlled entities, associates, affiliates, nor any person acting on their behalf will, at any time during a period of 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period, without the prior written consent of ING, participate in the Offering and will use all reasonable endeavours to procure that no connected person participates in the Offering. These restrictions will not preclude JSC Galt & Taggart Securities from entering into transactions in the ordinary course of its business pursuant to instructions from its clients or customers.

Transfer Restrictions .... The GDRs will be subject to certain restrictions on transfer. See “Transfer Restrictions”.

Dividends .... Bank of Georgia does not expect to declare or pay any dividends in the foreseeable future. Instead, Bank of Georgia intends to reinvest net income into its business areas. See “Dividend Policy”.

Taxation .... The GDRs will be subject to certain UK and Georgian tax consequences of purchasing and holding GDRs. See “Taxation”.

Listing and Trading .... Applications have been made (i) to the UK FSA in its capacity as competent authority under the FSMA for a listing of up to 25,335,619 GDRs pursuant to a block listing, consisting of up to 7,721,919 GDRs to be issued on the Closing Date, up to 1,158,288 Additional GDRs to be issued pursuant to the Over-Allotment Option, as described herein, and up to 16,455,412 additional GDRs to be issued from time to time against the deposit of shares of Bank of Georgia with the Depositary, to be admitted to the Official List of the UKLA and (ii) to the LSE for the GDRs to be admitted, pursuant to a block listing application, to trading under the symbol “BGEO” on the Regulated Market. Notwithstanding that application for such a block listing will be made, only 7,721,919 GDRs will be issued on the Closing Date. Application has also been made for eligibility for trading of the Rule 144A GDRs (to the extent that any are issued in the future) on PORTAL. It is expected that conditional trading in the GDRs will commence on a when and if issued basis on or about 24 November 2006 and that unconditional trading in the GDRs on the LSE will

	commence on 29 November 2006. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission to the Official List or to trading on the LSE does not take place and will be at the sole risk of the parties concerned.
Settlement and Delivery	Payment for the GDRs is expected to be made in U.S. dollars in same-day funds. It is expected that the Regulation S GDRs will be accepted in the settlement systems of Euroclear and Clearstream. The Master Regulation S GDR will be deposited with the Common Depositary for Euroclear and Clearstream and registered in the name of BNY (Nominees) Limited as nominee for such Common Depositary. Transfers within Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. Application will also be made to have the Rule 144A GDRs accepted for clearance through DTC.
Ownership Restrictions under Georgian Law	Holders and beneficial owners of GDRs are required to comply with restrictions pursuant to the Georgian Law on Activities of the Commercial Banks on the ownership of the underlying Shares. Holders and beneficial owners of GDRs are not permitted to own Shares or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising 10% or more of the issued share capital of Bank of Georgia at any time without the prior written approval of the NBG.
Voting	Subject to any applicable provisions of Georgian law, the Charter of Bank of Georgia (the "Charter") and the Deposit Agreement, the Depositary will exercise, through its nominee, the voting rights pertaining to the Shares as instructed by holders of the GDRs, at any meeting of holders of Shares of which the Depositary receives timely notice, certification of ownership interest and disclosure of beneficial ownership in the event such GDR holder has the ability to exercise voting rights in respect of Shares comprising 10% or more of the issued share capital of Bank of Georgia. See "Terms and Conditions of the Global Depositary Receipts — Voting Rights".
Use of Proceeds	The net proceeds from the Offering will be used by Bank of Georgia to pursue strategic acquisitions and to fund the growth of Bank of Georgia, including the expansion of Bank of Georgia's lending activities.
Management	The Supervisory Board of Bank of Georgia is comprised of the following five members: Lado Gurgenidze, Nicholas Enukidze, Ian Hague, Jyrki Talvitie and Allan Hirst. The Management Board of Bank of Georgia is comprised of the following four members: Irakli Gilauri, Ramaz Kukuladze, Sulkhan Gvalia and Irakli Burdiladze.
General Information	The security numbers for the GDRs offered hereby are as follows:

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

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors should carefully consider the following information about these risks, together with the information contained elsewhere in this Prospectus, before purchasing GDRs. If any of the following risks actually occur, the Bank's business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of the GDRs could also decline and investors could lose all or part of their investment.

The Bank has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Bank faces. Additional risks and uncertainties, including those the Bank currently is not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the GDRs.

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 (US$110.9 million) as of 31 December 2003 to GEL 363.2 million (US$199.0 million) as of 31 December 2004 to GEL 460.6 million (US$256.9 million) as of 31 December 2005 to GEL 715.6 million (US$403.6 million) as of 30 June 2006. The rapid growth in the Bank's total assets requires continued monitoring for risk management and compliance with NBG requirements by the Bank'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.

The Bank's loans to customers, net of allowance for impairment, grew from GEL 141.8 million (US$68.3 million) as of 31 December 2003 to GEL 169.9 million (US$93.1 million) as of 31 December 2004 to GEL 297.4 million (US$165.9 million) as of 31 December 2005 to GEL 447.9 million (US$252.6 million) as of 30 June 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 CIS markets. In line with its growth strategy, the Bank recently acquired the assets and liabilities of Intellect Bank and 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.

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, United Georgian Bank, 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 Generale recently acquired a 60% ownership interest in Bank Republic (10% is owned by EBRD), Vneshtorgbank currently has a 51% ownership interest in United Georgian Bank, Bank Turan Alem has a 49% ownership interest in BTA SilkRoadBank and ProCredit 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 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. 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 in all material respects, except for the Tier I capital adequacy ratio. Although the Bank of Georgia has received a waiver from the NBG until February 2007 with respect to the Tier I capital adequacy ratio, no assurance can be given 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 GDRs.

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 the Bank believes that its 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 implementation date of 30 June 2007:

- Appointment of a new Chief Financial Officer in March 2006.
- 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.
- 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 GDRs.

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 a devaluation 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.

Absence of Centralised Credit Information

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 absence of 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 real 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. 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. 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 a bonus incentive scheme. 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.

The Bank believes that its 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 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 licences 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 temporary administration of Bank of Georgia by the NBG and/or fines imposed by the NBG on Bank of Georgia, which may, in turn, affect Bank of Georgia's ability to fulfill its payment obligations, and would have a material adverse effect on Bank of Georgia's business, financial condition, results of operations and prospects. 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 then 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 an 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

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 the 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 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. In the event of such a default, Bank of Georgia's obligations under one or more of these 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. See "Business — 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 and aims to commence its regional expansion by utilising part of the proceeds of the Offering for these purposes. 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. 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'etat* 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 Commonwealth of Independent States (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 ("MPs") 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, 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. 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.

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 GDRs.

Regional Relationships

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

Russia is Georgia's largest import supplier, primarily of oil and gas. 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 2005, Georgia imported approximately 95% of its natural gas supplies from Russia. In early 2006, Russian gas supplier Gazprom increased the price of gas from US$65.00 per 1,000 cubic metres to US$110.00 per 1,000 cubic metres. On 3 November 2006, Gazprom announced that it planned to charge Georgia US$230.00 per 1,000 cubic metres of natural gas supplied. Although the price remains subject to negotiation, Gazprom has announced that it may cut the supplies of natural gas to Georgia if a price acceptable to Gazprom is not reached. The considerable dependence of the Georgian economy on Russian exports of energy resources, 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 source of its natural gas needs from the Iran-Azerbaijan-Georgia pipeline ("IAG Pipeline") and Shah-Deniz pipeline in the near future, no assurance can be given that those pipelines will be fully utilised before material 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. As of the date of this Prospectus, Russia has not indicated when 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 GDRs.

In 1997, a regional group consisting of Georgia, Ukraine, Azerbaijan, Moldova and Uzbekistan, the latter leaving the organisation 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 GDRs.

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. 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 South Caucasus natural gas pipeline (the "SCP"). 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 ("ENP") 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.

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 GDRs.

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 70 percent and exports by 90 percent, 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 Turkmenistan and Russia, its two largest export markets which accounted for 14.9% and 11.5% of Georgia's total exports, respectively as of 30 June 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, may have a material adverse effect on Georgia's economy.

There can be no assurance that current trends in the Georgian economy, such as an increase in 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 IMF, inflation as measured by period average Consumer Price Index ("CPI") in Georgia was 4.8% in 2003, 5.7% in 2004 and 8.3% in 2005. 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 US$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 US$538 million worth of gold and currency reserves as of 30 June 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 22% 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 official corruption in Georgia. Although levels of corruption have been 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 GDRs.

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 24 August 1995 Constitution of Georgia 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 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 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;
- 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 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% and VAT exemptions reduced to a minimum. The Corporate profit tax rate remains at 20% while the individual income tax rate, which is a flat tax, was reduced to 12%.

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 the Bank 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.

Risks Relating to the GDRs and the Trading Market

No Prior Trading Market for the GDRs and Price Volatility for GDRs

Before the Offering, there has been no public trading market for the GDRs and although the Shares are listed on the GSE, no active public market for the Shares. Although the GDRs will be admitted to trading on the LSE, an active, liquid trading market may not develop or be sustained after the Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the Shares underlying the GDRs from the Depositary, there is a very limited public free float of Bank of Georgia's shares on the GSE, where they are currently listed.

The trading prices of the Shares and the GDRs may be subject to wide fluctuations in response to many factors, including:

- any of the factors identified under the caption "Forward-Looking Statements";

- variations in the Bank's actual or expected operating results and the general health of the Georgian economy;
- actual or anticipated announcements of new products and services, significant acquisitions, strategic partnerships or joint ventures by the Bank or its competitors;
- future equity or debt offerings, the announcement thereof, or the perception that they may occur;
- changes in securities analysts' financial estimates and projections;
- changes in governmental legislation or regulation;
- variations in national and industry growth rates;
- general economic conditions within the banking industry or in Georgia;
- investor perceptions of risks associated with the Georgian market or other emerging markets;
- extreme price and volume fluctuations on the Georgian or other emerging market stock exchanges or exchanges on which the GDRs or the underlying shares are listed or quoted for trading; or
- other events or factors, many of which are beyond the Bank's control.

In addition, due to such factors, the trading price of the GDRs may decline below the Offer Price, which will be determined by negotiation between the Bank and the Managers, and there can be no assurance that that the price of the GDRs prevailing from time to time in the public markets will reflect the actual economic performance of the Bank.

Although both a Regulation S GDR facility and a Rule 144A GDR facility will be established on the Closing Date, all Shares will be deposited into the Regulation S GDR facility and only Regulation S GDRs shall be issued on the Closing Date. Therefore, to the extent that the Shares underlying GDRs are transferred from the Regulation S GDR facility to the Rule 144A GDR facility after the Closing Date and a corresponding amount of Rule 144A GDRs are issued by the Depositary, such Rule 144A GDRs will be even less liquid as no previous market would have existed prior to the transfer. This lack of liquidity may adversely affect the price of the Rule 144A GDRs.

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

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

Additionally, holders will be unable to instruct the Depositary to:

- vote the Shares represented by their GDRs on a cumulative basis; or
- introduce resolutions on the agenda of the shareholders' meetings or request the convocation of the shareholders' meetings.

Holders who wish to take such actions must timely request the cancellation of GDRs and take delivery of the underlying Shares, thus becoming the owner of such Shares on Bank of Georgia's share register. See "Terms and Conditions of the Global Depositary Receipts".

Future Issuances or Sales of Shares or GDRs

Future issuances or sales of Bank of Georgia's shares, or securities convertible into or exchangeable for shares, directly or in the form of depositary receipts at any time by Bank of Georgia, or even the perception that such issuances or sales might occur, could adversely affect the market price of the GDRs and the Shares. Sales of a substantial number of Shares or GDRs in the public markets following the Offering, or the perception that these sales may occur, could have a material adverse effect on the price of the GDRs or could impair Bank of Georgia's ability to obtain further capital through an offering of equity securities. Although Bank of Georgia and the Selling Shareholders have entered into customary lock-up arrangements with ING for a period of 12 months from the Closing Date (or, if later, the last closing date in respect of an exercise of the Over-Allotment Option), these restrictions may be waived by ING in its discretion, in whole or in part. See "Subscription and Sale".

Future issuances of shares by Bank of Georgia may also reduce an investor's percentage ownership interest in Bank of Georgia if that investor does not duly exercise its pre-emptive rights in respect of any new issue of shares. See "Description of Share Capital and Certain Requirements of Georgian Law — Issue of Ordinary Shares and Pre-emption Rights". In particular, such rights may not be made available to holders of GDRs if Bank of Georgia does not request the Depositary to do so, or if it is not lawful or reasonably practicable for the Depositary to do so. See "Terms and Conditions of the Global Depositary Receipts". In addition, even if pre-emptive rights are made available to holders of GDRs, the process for exercising such pre-emptive rights through the Depositary may take longer for such holders than for holders of Bank of Georgia's shares and Bank of Georgia cannot assure investors that they will be able to instruct the Depositary to exercise pre-emptive rights in a timely manner.

Furthermore, Bank of Georgia may issue other classes of securities with rights, preferences or privileges that are more favourable than those attached to the Shares.

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

The gain realised, or deemed to be realised, by non-Georgian or Georgian residents on the disposition, exchange or conversion of Shares or GDRs is subject to taxation in Georgia. Non-Georgian and Georgian entities are required to pay Georgian profit tax on capital gains at a flat rate of 20%. Capital gains of resident natural persons as well as of non-resident natural persons are subject to personal income tax at a flat rate of 12%. Although no definitive rulings have been issued under Georgian tax laws as to whether the deposit and withdrawal of Shares in and from a depositary receipt facility represents a disposition, exchange or conversion which is subject to tax in Georgia, holders of GDRs or Shares may be subject to tax on Georgian-source capital gains upon the deposit and withdrawal of Shares with and from the custodian of the Depositary pursuant to the terms and conditions that apply to the GDRs, and, further, the custodian may be subject to profit tax upon the withdrawal of the Shares from the depositary receipt facility by the GDR holders. Additionally, a 10% Georgian withholding tax may apply to the payment of dividends on the Shares or GDRs to non-Georgian entities and natural persons. Notwithstanding the above, certain relief on taxes payable by non-Georgian holders may be available pursuant to applicable double taxation treaties. For additional discussion of tax consequences relating to the Shares and the GDRs, see "Taxation — Georgia".

Enforceability of Foreign Judgements

Bank of Georgia is incorporated under the laws of Georgia and all or a substantial portion of the assets of the Bank are located in Georgia. In addition, all 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.

Foreign court judgements (including judgements of UK courts) are recognised and enforceable in Georgia under Article 68 and Article 70 of Law of Georgia on International Private Law under certain conditions. Generally, foreign court judgements are 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 several other less relevant conditions are not satisfied. No treaty exists between the United Kingdom and Georgia for the reciprocal enforcement of foreign court judgements. Greater assurance of the recognition and enforcement of UK judgements would be provided if Georgia and the UK had a treaty on mutual recognition and enforcement of court judgements, which they do not. The limitations described above may significantly delay the enforcement of any such judgment, or potentially deprive the GDR Holders of effective legal recourse.

Georgian Mandatory Tender Offer Rules

According to the Georgian Law on Entrepreneurs, if a shareholder acquires more than 50% of the voting shares of a company, it must make a tender offer that complies with requirements under the Georgian Law on Securities Market to buy out all the remaining shares. Under the Georgian Law on Entrepreneurs, The Bank of New York, as depositary, may be regarded as a 50% shareholder if the number of shares deposited pursuant to the Deposit Agreement exceeds 50% of Bank of Georgia's voting shares, so triggering the requirement to make a tender offer. Accordingly, The Bank of New York, acting as Depositary, intends not to accept shares for deposit in depositary facilities if such deposit results in The Bank of New York holding 50% or more of the shares at any time and the ability of holders of shares of Bank of Georgia to deposit Shares into the facility may be restricted. The trading price of shares listed on the Georgian Stock Exchange will not necessarily be related to that of GDRs and the trading price of shares and GDRs may be affected if The Bank of New York does not accept shares for deposit into the depositary facilities. For a further description of the Georgian mandatory tender offer rules, see "Description of Share Capital and Certain Requirements of Georgian Legislation - Georgian Mandatory Tender Offer 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.

USE OF PROCEEDS

The net proceeds from the sale of the GDRs in the Offering (assuming the Over-Allotment Option is exercised in full) are expected to be US$127,354,000. The net proceeds from the Offering will be used by the Bank to pursue strategic acquisitions and to fund the growth of the Bank, including the expansion of the Bank's lending activities. Total commissions and expenses payable by Bank of Georgia in connection with the Offering (assuming the Over-Allotment Option is exercised in full) are expected to be approximately US$6,570,000.

DIVIDEND POLICY

In the forseeable future, Bank of Georgia does not expect to declare or pay any dividends. Instead, Bank of Georgia intends to reinvest net income into its business areas.

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

	Shares Outstanding at Record Date[(1)]	Amount of Distributed Dividends	Dividend Per Share	Dividend Payment as a % of Total Income
		(Amounts in Lari)		
2001[(2)]	9,855,606	1,775,000	0.18	23.1%
2002[(2)]	9,855,606	2,150,000	0.22	30.3%
2003	9,855,606	2,500,000	0.25	27.3%
2004	11,273,386	—	—	0.0%
2005	14,728,784	776,478	0.05	5.8%

Notes:

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

(2) Information in respect of 2001 and 2002 is based on management accounts.

The Law on Entrepreneurs, the regulations of the National Securities Commission of Georgia and Bank of Georgia's Charter set forth the procedure for determining the amount of dividends, if any, Bank of Georgia distributes to its shareholders. Dividends can only be paid after the General Meeting of Shareholders (the "GMS") has adopted Bank of Georgia's annual accounts, which show that the distribution of dividends is permissible out of the net profits of Bank of Georgia. According to the Charter, within one month from the completion of the annual audit, but in any case at least one month prior to the annual GMS, the Management Board of Bank of Georgia (the "Management Board") prepares a proposal on the distribution of profit and submit this proposal to the Supervisory Board of Bank of Georgia (the "Supervisory Board") for approval. If the Supervisory Board and the Management Board cannot agree on the proposal, both proposals are submitted to the GMS for approval. The payment of dividends is made not more than two months after the date of the GMS which resolved on the distribution of profits. To the extent that dividends are declared and paid by Bank of Georgia, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

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

MARKET INFORMATION

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

Period	High	Low
	(Amounts in Lari)	
2006 (through 14 November 2006)	21.6	8.3
2005	8.3	5.6
2004	6.0	0.5
2003	2.0	0.5
2002	3.5	1.0
2001	3.2	1.2
2000 (beginning from 25 July 2000)	2.2	1.2

DILUTION

Bank of Georgia's consolidated net tangible book value as of 30 June 2006 was approximately US$46.0 million, resulting in a consolidated net tangible book value per Share of US$2.96. Consolidated net tangible book value per Share represents the amount of Bank of Georgia's total tangible consolidated assets less total consolidated liabilities and minority interest, divided by the number of Shares outstanding.

Dilution in net tangible book value per Share represents the difference between the amount per Share paid by purchasers of GDRs in the Offering and the net tangible book value per Share immediately after the completion of the Offering. After giving effect to the sale by Bank of Georgia of 7,440,207 Shares represented by GDRs in the Offering (assuming that the Over-allotment Option is exercised in full) at the offering price of US$18 per GDR and after deducting the underwriting discount and estimated offering expenses payable by Bank of Georgia, the Bank's net consolidated tangible book value as of 30 June 2006, as adjusted, would have been US$173.40 million, or GEL 13.39 (US$7.55) per share. This represents an immediate increase in net tangible book value of US$4.59 per Share to existing shareholders and an immediate dilution of US$10.45 per Share to new investors purchasing GDRs in the Offering (assuming that the Over-Allotment Option is exercised in full and based on a ratio of one GDR per Share).

Offer price per GDR(1)	US$18
Net tangible book value per Share as of 30 June 2006	US$2.96
Increase in net tangible book value per Share attributable to the issuance of GDRs as if the GDRs were issued on 30 June 2006	US$4.59
Net tangible book value per Share immediately after the issuance of the GDRs as if the GDRs were issued on 30 June 2006	US$7.55
Dilution per Share to investors purchasing GDRs in the Offering (assuming that the Over-Allotment Option is exercised in full)	US$10.45

Note:

(1) Based on a ratio of one GDR per Share, the implied market price per Share is US$18.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth, as of 30 June 2006, (a) the Bank's historical cash and cash equivalents, short and long-term borrowings and total capitalisation, and (b) the Bank's cash and cash equivalents, short and long-term borrowings and total capitalisation, as adjusted to reflect the net proceeds of the Offering (assuming that the Over-Allotment Option is exercised in full). Prospective investors should read this information in conjunction with the Consolidated Financial Statements and accompanying notes included elsewhere in this Prospectus.

	As of 30 June 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):				
Senior long-term debt (net of current portion)	133,543	75,320	133,543	75,320
Subordinated long-term debt (net of current portion)	—	—	—	—
Total long-term debt (net of current portion)	**133,543**	**75,320**	**133,543**	**75,320**
Equity:				
Common shares	15,538	8,764	22,978	12,960
Share capital	**15,538**	**8,764**	**22,978**	**12,960**
Share premium	37,382	21,084	255,822	144,288
Treasury shares	(155)	(87)	(155)	(87)
Retained earnings	47,828	26,976	47,828	26,976
Other reserves	5,313	2,997	5,313	2,997
Total equity attributable to shareholders	**105,906**	**59,734**	**331,786**	**187,134**
Minority interest	985	556	985	556
Total equity	**106,891**	**60,290**	**332,771**	**187,690**
Total capitalisation(3)	**240,434**	**135,610**	**466,314**	**263,010**

Notes:

(1) Adjusted to give effect to the application of net proceeds to the Bank from the Offering (assuming the Over-Allotment Option is exercised in full), but not adjusted for any other changes subsequent to 30 June 2006.

(2) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

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

	As of 30 June 2006	
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars) (1)
Undrawn loan commitments	22,130	12,482
Letters of credit	55,423	31,259
Guarantees	56,686	31,972
Total credit related commitments	**134,239**	**75,713**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Since 30 June 2006, Bank of Georgia has entered into several financing agreements and has raised equity financing though the sale of newly issued common shares of Bank of Georgia.

In August 2006, Bank of Georgia received a US$5 million subordinated loan from a fund advised by Thames River Capital. The loan has a term of 10 years although Bank of Georgia has the right to prepay the loan after five years, subject to the consent of the NBG. Bank of Georgia additionally received a US$25 million unsecured loan facility from Merrill Lynch International in August 2006. The loan has a term of one year and is expected to be repaid from the proceeds of the bond offering by Bank of Georgia, which is scheduled to occur in early 2007. In September 2006, Bank of Georgia received a US$25 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 the first two years of its term. Bank of Georgia has the right to prepay the loan at the end of its convertibility period or after five years, subject to the consent of the NBG.

In July and September 2006, Bank of Georgia raised GEL 14.4 million and GEL 9.0 million of equity financing through the sale of 750,000 and 400,000 newly issued common shares of Bank of Georgia, respectively.

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

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information, which has been extracted without material adjustment from, and should be read in conjunction with, the Consolidated Financial Statements as of and for the years ended 31 December 2003, 2004 and 2005 and as of 30 June 2006 and for the six month periods ended 30 June 2005 and 2006 prepared in accordance with IFRS, and the notes thereto, included elsewhere in this Prospectus as well as the sections entitled "Capitalisation and Indebtedness" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Consolidated Statement of Operations Data

	Year ended 31 December				Six months ended 30 June		
	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	24,040	38,393	21,654
Interest expense	7,880	9,919	13,081	7,296	5,705	12,498	7,049
Net interest income before impairment of interest earning assets	**24,419**	**23,839**	**38,751**	**21,613**	**18,335**	**25,895**	**14,605**
Impairment of interest earning assets	4,105	20,511	6,228	3,474	3,622	7,085	3,996
Net interest income after impairment of interest earning assets	**20,314**	**3,328**	**32,523**	**18,139**	**14,713**	**18,810**	**10,609**
Fee and commissions income	11,751	13,059	16,753	9,344	7,112	11,912	6,719
Fee and commissions expense	2,895	2,745	2,385	1,330	1,065	1,665	939
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**6,047**	**10,247**	**5,780**
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**4,716**	**9,365**	**5,282**
Other non-interest expense	**21,495**	**26,772**	**41,257**	**23,010**	**18,714**	**24,185**	**13,641**
Income (loss) before income tax expense	**11,585**	**(8,130)**	**16,735**	**9,334**	**6,762**	**14,237**	**8,030**
Net income (loss) for the period	**9,154**	**(7,349)**	**13,627**	**7,600**	**6,169**	**11,026**	**6,219**
Earnings (loss) per share	**0.93**	**(0.78)**	**1.14**	**0.64**	**0.55**	**0.73**	**0.41**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Consolidated Balance Sheet Data

	As of 31 December				As of 30 June	
	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	108,160	61,004
Amounts due from credit institutions	16,117	25,585	33,398	18,627	47,954	27,047
Loans to customers, net	141,780	169,868	297,376	165,854	447,883	252,613
Net investment in lease	—	598	4,314	2,406	4,958	2,796
Investment securities	1,742	19,628	10,607	5,916	2,283	1,288
Property and equipment, net	20,024	27,159	35,815	19,975	48,509	27,360
Intangible assets, net	2,025	6,286	7,685	4,286	25,254	14,244
Income tax assets	—	3,407	2,570	1,433	309	174
Prepayments	—	157	455	254	3,274	1,847
Other assets	4,808	7,737	11,114	6,198	26,999	15,228
Total assets	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**
Liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	138,308	78,008
Amounts owed to customers	123,573	252,129	269,952	150,559	444,889	250,924
Debt securities issued	—	—	1,143	637	1,333	752
Income tax liabilities	771	203	2,087	1,164	2,825	1,593
Provisions	472	971	975	544	—	—
Other liabilities	428	6,075	16,078	8,967	21,337	12,034
Total liabilities	**175,481**	**307,712**	**369,108**	**205,860**	**608,692**	**343,311**
Equity						
Share capital	9,856	11,273	14,729	8,215	15,538	8,764
Share premium	4,530	13,376	32,922	18,361	37,382	21,084
Treasury shares	—	(73)	(81)	(45)	(155)	(87)
Retained earnings	24,930	23,911	37,427	20,874	47,828	26,976
Other reserves	15,325	5,492	5,369	2,994	5,313	2,997
Total equity attributable to shareholders	**54,641**	**53,979**	**90,366**	**50,400**	**105,906**	**59,734**
Minority interests	—	1,481	1,096	611	985	556
Total equity	**54,641**	**55,460**	**91,462**	**51,011**	**106,891**	**60,290**
Total liabilities and equity	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Selected Financial Ratios

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
		(percentage)		
Profitability ratios:				
ROAA(1)	n/a(2)	n/a(3)	3.3	3.7(4)
ROAE(5)	n/a(2)	n/a(3)	18.5	22.2(4)
Net interest margin(6)	n/a(2)	10.9	11.9	10.8(4)
Interest expense to interest income	24.4	29.4	25.2	32.6
Net fee and commission income to total operating income(7)	23.8	26.3	22.4	22.5
Interest income to average interest earning assets(6)	n/a(2)	15.5	15.9	16.1(4)
Cost of funds (8)	n/a(2)	4.2	4.0	5.3(4)
Net spread(9)	n/a(2)	11.3	11.8	10.7(4)
Net non-interest income to total operating income(10)	34.3	39.1	39.7	43.1
Efficiency ratios:				
Other non-interest expense to average total assets	n/a(2)	9.0	10.0	8.2(4)
Salaries and other employee benefits to total operating income(11) (12)	24.4	32.9	36.2	29.3
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	62.6
Net loans to amounts owed to customers	114.7	67.4	110.2	100.7
Net loans to total deposits(12)	94.9	61.6	96.8	80.8
Net loans to total liabilities	80.8	55.2	80.6	73.6
Interest earning assets to total assets(6)	73.4	73.7	83.7	79.6
Liquid assets to total assets(13)	19.7	33.7	14.2	15.4
Total deposits to total assets(12)	64.9	76.0	66.7	77.5
Amounts owed to customers to total deposits	82.7	91.4	87.9	80.2
Amounts owed to customers to total equity (times)	2.3	4.5	3.0	4.2
Amounts due from credit institutions to amounts owed to credit institutions, except for borrowings from international credit institutions	62.3	107.8	89.9	43.7
Total equity to net loans	38.5	32.6	30.8	23.9
Leverage, times(14)	3.2	5.5	4.0	5.7
Asset quality:				
Allowance at period end for loan impairment to gross loans(15)	6.1	10.1	5.4	5.1
Impairment for period end of interest earning assets to average gross loans	n/a(2)	12.1	2.5	3.6(4)
Capital adequacy (at period end):				
Consolidated Tier I capital adequacy ratio(16)	39.6	32.1	23.0	17.6
Consolidated Total capital adequacy ratio(16)(17)	45.0	33.8	24.0	15.4
Standalone Tier I capital adequacy ratio(18)	39.6	31.8	23.6	18.1
Standalone Total capital adequacy ratio(18)(19)	45.0	36.3	23.8	13.3

Notes:

(1) Return on average total assets.

(2) Data not available.

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

(4) Six 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 13.4 million as of 30 June 2006, GEL 11.0 million, GEL 23.2 million, GEL 12.9 million and GEL 9.1 million as of 30 June 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 110.2 million as of 30 June 2006 and GEL 65.6 million, GEL 122.4 million and GEL 45.4 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 24.1 million as of 30 June 2006 and GEL 16.9 million, GEL 19.1 million and GEL 9.3 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. 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 100.7 million as of 30 June 2006, and GEL 84.9 million, GEL 48.6 million and GEL 49.0 million as of 31 December 2005, 2004, and 2003, respectively. The consolidated risk weighted assets amounted to GEL 573.9 million as of 30 June 2006 and GEL 368.4 million, GEL 151.1 million and GEL 123.9 million as of 31 December 2005, 2004 and 2003, respectively.

(17) The consolidated total capital adequacy ratio calculated in accordance with Basel Capital Accord standards. The consolidated total capital adequacy ratio of the Bank equals regulatory capital (Tier I + Tier II - deductions) divided by the consolidated risk weighted assets. The consolidated regulatory capital (Tier I + Tier II - deductions) amounted to GEL 88.2 million as at 30 June 2006 and GEL 88.3 million, GEL 51.0 million and GEL 55.8 million as at 31 December, 2005, 2004 and 2003, respectively.

(18) The standalone Tier I capital adequacy ratio calculated in accordance with Basel Capital Accord 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 100.7 million as of 30 June 2006, and GEL 84.2 million, GEL 48.7 million and GEL 49.0 million, as of 31 December 2005, 2004, and 2003, respectively. The standalone risk weighted assets amounted to GEL 555.3 million as at 30 June 2006 and GEL 356.2 million, GEL 153.0 million and GEL 123.9 million as of 31 December 2005, 2004 and 2003, respectively.

(19) The standalone total capital adequacy ratio calculated in accordance with Basel Capital Accord 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 74.0 million as at 30 June 2006 and GEL 84.8 million, GEL 55.6 million and GEL 55.8 million as at 31 December, 2005, 2004 and 2003, respectively.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, which have been prepared in accordance with IFRS and which appear elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "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), deposit accounts (including current accounts, time deposits and demand deposits), 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, 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. In addition, the Bank provides insurance, leasing, asset and wealth management and card processing services and engages in merchant banking activities.

As of 30 September 2006, Bank of Georgia was the largest bank in Georgia based on total equity and was the second largest bank in Georgia based on total assets (with a 22.5% market share), total loans (with a 23.7% market share) and total deposits (with a 21.0% 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 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% equity interest in Galt & Taggart Securities, which was increased to 53% in 2004 and 100% in 2005. The results of Galt & Taggart Securities have been consolidated in the Bank's consolidated 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. 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 consolidated 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. At the time of the acquisition, TUB owned a 60% equity interest in Georgian Leasing Company ("GLC"), the second-largest leasing company in Georgia, and an 8% equity interest in Galt & Taggart Securities. The results of TUB and GLC have been consolidated in the Bank's Consolidated Financial Statements since 31 December 2004. In October 2005 Bank of Georgia increased its effective ownership interest in GLC to 75% and in March 2006 the Bank increased its effective ownership interest in GLC to 100%.

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. BCI is currently a wholly-owned subsidiary of the Bank. The results of BCI have been consolidated in the Bank's Consolidated Financial Statements since 30 December 2004.

In October 2005, Bank of Georgia and BCI acquired 20% and 80%, respectively, of EuroPace, a Georgian insurance company. The results of EuroPace have been consolidated in the Bank's Consolidated 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 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 and the fair value of the acquired liabilities that was recognised by the Bank on acquisition was GEL 47.3 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. The Bank's results for the six months ended 30 June 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.

	Year ended 31 December		
	2003	**2004**	**2005**
Nominal gross domestic product (GDP) (billions of Lari)	8.6	9.8	11.6
Budget balance (millions of Lari)	(186)	(151)	(9)
CPI (year end) (Percentage)	7.0	7.5	6.2
Exchange rate (year end) (Lari per U.S. dollar)	2.08	1.83	1.79
Unemployment (Percentage)	11.5	12.6	13.8

Source: Department of Statistics of Georgia; NBG.

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.

Recent Financial Performance

The financial information in the following paragraph is unaudited. The Bank's actual results may differ from the amounts reflected herein as a result of various factors. The Bank's results for an interim period are not necessarily indicative of what its results will be for the full year.

Based on the Bank's IFRS management accounts as of and for the nine months ended 30 September 2006, the Bank's total assets as of 30 September 2006 were GEL 856.7 million and its total liabilities as of such date were GEL 719.6 million, representing increases of 85.6% and 94.4%, respectively, as compared to 31 December 2005. The Bank's net income for the nine months ended 30 September 2006 was GEL 17.3 million, representing a 96.0% increase as compared to net income for the nine months ended 30 September 2005.

Consolidated Results of Operations

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

	Year ended 31 December				Six months ended 30 June		
	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	24,040	38,393	21,654
Interest expense	7,880	9,919	13,081	7,296	5,705	12,498	7,049
Net interest income before impairment of interest earning assets	**24,419**	**23,839**	**38,751**	**21,613**	**18,335**	**25,895**	**14,605**
Impairment of interest earning assets	4,105	20,511	6,228	3,474	3,622	7,085	3,996
Net interest income after impairment of interest earning assets	**20,314**	**3,328**	**32,523**	**18,139**	**14,713**	**18,810**	**10,609**
Fee and commissions income	11,751	13,059	16,753	9,344	7,112	11,912	6,719
Fee and commissions expense	2,895	2,745	2,385	1,330	1,065	1,665	939
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**6,047**	**10,247**	**5,780**
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**4,716**	**9,365**	**5,282**
Other non-interest expense	**21,495**	**26,772**	**41,257**	**23,010**	**18,714**	**24,185**	**13,641**
Income (loss) before income tax expense	**11,585**	**(8,130)**	**16,735**	**9,334**	**6,762**	**14,237**	**8,030**
Net income (loss) for the year	**9,154**	**(7,349)**	**13,627**	**7,600**	**6,169**	**11,026**	**6,219**
Earnings (loss) per share	**0.93**	**(0.78)**	**1.14**	**0.64**	**0.55**	**0.73**	**0.41**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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				Six months ended 30 June		
	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	21,427	36,351	20,502
Debt securities owned	2,295	1,654	2,664	1,486	1,601	430	243
Amounts due from credit institutions	—	672	1,525	851	902	1,227	692
Net investment in lease	—	—	396	221	110	385	217
Total interest income	**32,299**	**33,758**	**51,832**	**28,909**	**24,040**	**38,393**	**21,654**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 June	
	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	108,160	61,004
Amounts due from credit institutions	16,117	25,585	33,398	18,627	47,954	27,047
Loans to customers, net	141,780	169,868	297,376	165,854	447,883	252,613
Net investment in lease	—	598	4,314	2,406	4,958	2,796
Investment securities	1,742	19,628	10,607	5,916	2,283	1,288
Total interest-bearing assets	**203,265**	**318,426**	**402,931**	**224,725**	**611,238**	**344,748**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Interest income increased by 53.5% to GEL 51.8 million (US$28.9 million) in 2005 from GEL 33.8 million (US$18.5 million) in 2004 and increased by 4.5% in 2004 compared to GEL 32.3 million (US$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 (US$26.3 million) from GEL 31.4 million (US$17.2 million) in 2004 and increased by 4.8% in 2004 from GEL 30.0 million (US$14.5 million) in 2003. While the size of the Bank's net loans increased by 19.8% from GEL 141.8 million (US$68.3 million) as of 31 December 2003 to GEL 169.9 million (US$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% from GEL 169.9 million (US$93.1 million) as of 31 December 2004 to GEL 297.4 million (US$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%, 24% and 21% for GEL loans, and 21%, 20% and 15% for foreign currency loans, in 2003, 2004 and 2005, respectively.

Interest income on the Bank's securities portfolio was GEL 2.7 million (US$1.5 million), GEL 1.7 million (US$0.9 million) and GEL 2.3 million (US$1.1 million) in 2005, 2004 and 2003, respectively. The Bank had debt securities of GEL 10.6 million (US$5.9 million), GEL 19.6 million (US$10.7 million) and GEL 1.7 million (US$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 (US$0.8 million), GEL 0.7 million (US$0.4 million) and GEL 0.7 million (US$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 38.4 million (US$21.6 million) for the six months ended 30 June 2006 compared to GEL 24.0 million (US$13.4 million) for the six months ended 30 June 2005. The increase was attributable primarily to a 69.7% increase in interest income on loans to customers, which increased to GEL 36.4 million (US$20.5 million) for the six months ended 30 June 2006 from GEL 21.4 million (US$11.9 million) for the six months ended 30 June 2005. The increase in interest income on loans to customers was due to significant growth in the size of the Bank's net loans, which increased by 50.6% from GEL 297.4 million (US$165.9 million) on 31 December 2005 to GEL 447.9 million (US$252.6 million) on 30 June 2006. The effective average interest rate on the Bank's loans to customers was 21% and 19% for GEL loans, and 15% and 18% for foreign currency loans, for the year ended 31 December 2005 and the six months ended 30 June 2006, respectively. The decrease in average yield over the periods indicated for GEL loans was largely due to increased competition. The increase in average yield over the periods indicated for foreign currency loans was largely due to a general increase of interest rates for borrowings from international lenders. Interest income on the Bank's securities portfolio was GEL 1.6 million (US$0.9 million) and GEL 0.4 million (US$0.2 million) in the six months ended 30 June 2005 and 2006 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 (US$5.9 million) at 31 December 2005 to GEL 2.3 million (US$1.3 million) at 30 June 2006. Interest earned on amounts due from credit institutions was GEL 1.2 million (US$0.7 million) and GEL 0.9 million (US$0.5 million) in the six months ended 30 June 2006 and 2005, respectively. This increase was attributable to higher average balances held with credit institutions in the first half of 2006 compared to the first half 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				Six months ended 30 June		
	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	4,141	7,665	4,323
Amounts owed to credit institutions	2,533	3,100	3,893	2,171	1,564	4,783	2,698
Debt securities issued	—	—	26	15	—	50	28
Total interest expense	**7,880**	**9,919**	**13,081**	**7,296**	**5,705**	**12,498**	**7,049**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 June	
	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	138,308	78,008
Amounts owed to customers	123,573	252,129	269,952	150,559	444,889	250,924
Debt securities issued	—	—	1,143	637	1,333	752
Total interest-bearing liabilities	**173,810**	**300,463**	**349,968**	**195,185**	**584,530**	**329,684**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Interest expense increased by 31.9% to GEL 13.1 million (US$7.3 million) in 2005 from GEL 9.9 million (US$5.4 million) in 2004 and increased 25.9% in 2004 from GEL 7.9 million (US$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 (US$150.6 million) from GEL 252.1 million (US$138.1 million) in 2004 and increased by 106.0% in 2004 from GEL 123.6 million (US$59.6 million) in 2003. The increases in customer account balances from 2003 to 2004 and from 2004 to 2005 were 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 119.1% for the six months ended 30 June 2006 to GEL 12.5 million (US$7.1 million) from GEL 5.7 million (US$3.1 million) for the six months ended 30 June 2005. The increase in the six month period ended 30 June 2006 compared to the six month period ended 30 June 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 six months ended 30 June 2006 and the year ended 31 December 2005 for the GEL customer accounts were 8% and 10%, respectively. Effective average interest rates paid on interest bearing customer account balances for the six months ended 30 June 2006 and the year ended 31 December 2005 for the foreign currency customer accounts were 9% and 8%, respectively. Foreign currency customer deposit balances at 30 June 2006 and 31 December 2005 accounted for 66.4% 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 (US$21.6 million) from GEL 23.8 million (US$13.0 million) in 2004 and decreased by 2.4% in 2004 from GEL 24.4 million (US$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 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 41.2% for the six months ended 30 June 2006 to GEL 25.9 million (US$14.6 million) from GEL 18.3 million (US$10.1 million) for the six months ended 30 June 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 10.8% for the six months ended 30 June 2006.

Impairment of Interest Earning Assets

Impairment of interest earning assets was GEL 6.2 million (US$3.5 million) in 2005, as compared to GEL 20.5 million (US$11.2 million) in 2004 and GEL 4.1 million (US$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 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 (US$4.5 million) (or 6.1% of gross total loans), GEL 19.1 million (US$10.5 million) (or 10.1% of gross total loans) and GEL 16.9 million (US$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 7.1 million (US$4.0 million) in the six months ended 30 June 2006, as compared to GEL 3.6 million (US$2.0 million) in the six months ended 30 June 2005. The increase was due to the increase in the size of the Bank's average gross loan portfolio, which increased by 56.2% from GEL 251.6 million (US$140.3 million) on 31 December 2005 to GEL 393.2 million (US$221.8 million) on 30 June 2006. Allowance for loan impairment was GEL 24.1 million (US$13.6 million) (or 5.1% of total gross loans) as of 30 June 2006.

See "Description of Business — 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 (US$18.1 million) as compared to GEL 3.3 million (US$1.8 million) in 2004 and GEL 20.3 million (US$9.8 million) in 2003, and the Bank's net interest income after impairment of interest earning assets for the six months ended 30 June 2006 was GEL 18.8 million (US$10.6 million) as compared to GEL 14.7 million (US$8.1 million) for the six months ended 30 June 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				Six months ended 30 June		
	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) (Unaudited)	(Amounts in thousands of U.S. dollars)(2)
Settlement operations	5,486	6,941	9,053	5,049	4,083	6,517	3,676
Guarantees and letters of credit	2,352	2,219	2,913	1,625	1,251	2,167	1,222
Cash collection	2,473	2,399	2,870	1,601	1,205	1,782	1,005
Brokerage service fee	960	998	780	435	375	766	432
Currency conversion operations	—	—	573	320	162	352	199
Advisory	—	—	133	74	26	71	40
Other(3)	480	502	431	240	10	257	145
Fees and commissions income	**11,751**	**13,059**	**16,753**	**9,344**	**7,112**	**11,912**	**6,719**
Settlement operations	1,289	1,306	1,171	653	482	1,005	567
Guarantees and letter of credit	546	882	804	448	330	580	327
Cash operations	528	362	245	137	132	55	31
Currency conversion operations	144	153	55	31	29	25	14
Other(4)	388	42	110	61	92	—	—
Fees and commissions expense	**2,895**	**2,745**	**2,385**	**1,330**	**1,065**	**1,665**	**939**
Net fees and commissions income	**8,856**	**10,314**	**14,368**	**8,014**	**6,047**	**10,247**	**5,780**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 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 (US$8.0 million) from GEL 10.3 million (US$5.6 million) in 2004 and increased 16.5% in 2004 from GEL 8.9 million (US$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 (US$1.3 million) from GEL 2.7 million (US$1.5 million) in 2004 and by 5.2% in 2004 from GEL 2.9 million (US$1.4 million) in 2003.

Net fees and commissions income increased by 69.5% for the six months ended 30 June 2006 to GEL 10.2 million (US$5.8 million) compared to GEL 6.0 million (US$3.3 million) for the six months ended 30 June 2005. The increase in net fees and commissions income for the six month period ended 30 June 2006 compared to the six months period ended 30 June 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				Six months ended 30 June		
	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	2,638	4,602	2,596
Net insurance premiums earned	—	—	4,028	2,246	1,781	3,749	2,114
Other operating income	42	152	566	316	297	1,014	572
Other non-interest income	**3,910**	**5,000**	**11,101**	**6,191**	**4,716**	**9,365**	**5,282**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

The Bank's other non-interest income in 2005 increased by 122.0% to GEL 11.1 million (US$6.2 million) from GEL 5.0 million (US$2.7 million) in 2004, which in turn represented an increase of 27.9% from GEL 3.9 million (US$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 six months ended 30 June 2006 increased by 98.6% to GEL 9.4 million (US$5.3 million) from GEL 4.7 million (US$2.6 million) for the six months ended 30 June 2005. The increase in other non-interest income for the six months ended 30 June 2006 compared to 30 June 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 (US$3.6 million) from GEL 4.8 million (US$2.6 million) in 2004 and increased by 25.3% in 2004 from GEL 3.9 million (US$1.9 million) in 2003. Net gains from foreign currencies increased by 74.5% for the six months ended 30 June 2006 to GEL 4.6 million (US$2.6 million) from GEL 2.6 million (US$1.4 million) for the six months ended 30 June 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 (US$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 six months ended 30 June 2006 of GEL 3.7 million (US$2.1 million) compared to GEL 1.8 million (US$1.0 million) for the six months ended 30 June 2005. The increase in the six months ended 30 June 2006 compared to the six months ended 30 June 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 (US$0.3 million) in 2005 from GEL 0.2 million (US$0.1 million) in 2004 and GEL 0.04 million (US$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 241.4% for the six months ended 30 June 2006 to GEL 1.0 million (US$0.6 million) from GEL 0.3 million (US$0.2 million) for the six months ended 30 June 2005. The increase in operating income for the six month period ended 30 June 2006 compared to the six month period ended 30 June 2005 was a result of the increase in brokerage revenue and other revenue from 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				Six months ended 30 June		
	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	11,007	13,351	7,530
Administration expenses	8,006	9,372	10,883	6,070	5,108	8,254	4,655
Depreciation, amortisation and impairment	2,231	2,609	4,230	2,359	2,014	2,530	1,427
Net insurance claims incurred	—	—	786	438	474	813	459
Impairment of other assets and provisions	1,493	1,559	280	156	(555)	(1,155)	(651)
Other operating expenses	705	336	1,859	1,037	666	392	221
Other non-interest expense	**21,495**	**26,772**	**41,257**	**23,010**	**18,714**	**24,185**	**13,641**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

The Bank's other non-interest expense in 2005 increased by 54.1% to GEL 41.3 million (US$23.0 million) from GEL 26.8 million (US$14.7 million) in 2004, which in turn represented an increase of 24.5% from GEL 21.5 million (US$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 six months ended 30 June 2006 increased by 29.2% to GEL 24.2 million (US$13.6 million) from GEL 18.7 million (US$10.3 million) for the six months ended 30 June 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 (US$12.9 million) from GEL 12.9 million (US$7.1 million) in 2004, which in turn represented an increase of 42.3% from GEL 9.1 million (US$4.4 million) in 2003. Salaries and other employee benefits costs increased by 21.3% to GEL 13.4 million (US$7.6 million) for the six months ended 30 June 2006 from GEL 11.0 million (US$6.1 million) for the six months ended 30 June 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 June 2006, the Bank had a total of 878, 968, 1,174 and 1,594 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 (US$6.1 million) in 2005 from GEL 9.4 million (US$5.2 million) in 2004, which in turn represented an increased of 17.1% from GEL 8.0 million (US$3.9 million) in 2003. Administration expenses increased by 61.6% to GEL 8.3 million (US$4.7 million) for the six months ended 30 June 2006 from GEL 5.1 million (US$2.8 million) for the six months ended 30 June 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. The number of branches of Bank of Georgia was 51, 54, 56 and 71 as of 31 December 2003, 2004, 2005 and 30 June 2006, respectively.

Depreciation, Amortisation and Impairment

Depreciation, amortisation and impairment increased by 62.1% to GEL 4.2 million (US$2.3 million) in 2005 from GEL 2.6 million (US$1.4 million) in 2004, which in turn represented an increase of 16.9% from GEL 2.2 million (US$1.1 million) in 2003. Depreciation, amortisation and impairment increased by 25.6% to GEL 2.5 million (US$1.4 million) for the six months ended 30 June 2006 from GEL 2.0 million (US$1.1 million) for the six months ended 30 June 2005. The increases over all of the periods discussed were attributable to increased investment in 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 (US$0.4 million) in 2005 and was 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 six months ended 30 June 2006 was GEL 0.8 million (US$0.5 million) compared to GEL 0.5 million (US$0.3 million) for the six months ended 30 June 2005. The increase in net insurance claims incurred from the six months ended 30 June 2005 to the six months ended 30 June 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 (US$0.2 million) in 2005, as compared to GEL 1.6 million (US$0.9 million) in 2004 and GEL 1.5 million (US$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 the foreclosed real estate and decrease in impairment charge of guarantees and commitments. Impairment of other assets and provisions decreased by 108.1% to a credit of GEL 1.2 million (US$0.7 million) for the six months ended 30 June 2006 from a credit of GEL 0.6 million (US$0.3 million) for the six months ended 30 June 2005. The decrease in the six month period ended 30 June 2006 compared to the six month period ended 30 June 2005 was primarily the result of an increase in the reversal in impairment charge of guarantees and commitments and decrease in impairment charge of other assets due to revaluation of the foreclosed real estate.

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 (US$0.3 million) in 2003 to GEL 0.3 million (US$0.2 million) in 2004 and increased to GEL 1.9 million (US$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 decreased by 41.1% to GEL 0.4 million (US$0.2 million) for the six months ended 30 June 2006 from GEL 0.7 million (US$0.4 million) for the six months ended 30 June 2005. The decrease in the six month period ended 30 June 2006 compared to the six month period ended 30 June 2005 was primarily the result of reduced amount of non-recurring expense.

Income (Loss) Before Income Tax Expense

The Bank had income before income tax expense of GEL 16.7 million (US$9.3 million), loss before income tax expense of GEL 8.1 million (US$4.4 million) and income before income tax expense of GEL 11.6 million (US$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 14.2 million (US$8.0 million) for the six months ended 30 June 2006 compared to GEL 6.8 million (US$3.8 million) for the six months ended 30 June 2005. The increase for the six months ended 30 June 2006 compared to the six months ended 30 June 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 (US$1.2 million), an income tax benefit of GEL 0.8 million (US$0.4 million) and an income tax expense of GEL 3.1 million (US$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 3.2 million (US$1.8 million) and GEL 0.6 million (US$0.3 million) for the six months ended 30 June 2006 and 2005, respectively. The increase in income tax expenses for the six month period ended 30 June 2006 compared to the six month period ended 30 June 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 22.6% and 8.8% for the six months ended 30 June 2006 and 2005 respectively. These effective tax rates differ from the Georgian statutory tax rate of 20% 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				Six months ended 30 June		
	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)	
Income (loss) before taxation	**11,585**	**(8,130)**	**16,735**	**9,334**	**6,762**	**14,237**	**8,030**
Statutory tax rate	20%	20%	20%	20%	20%	20%	20%
Theoretical income tax expense (benefit) at the statutory rate	**2,317**	**(1,626)**	**3,347**	**1,867**	**1,352**	**2,847**	**1,606**
Income from state securities taxed at the lower rate of 10%	(446)	(330)	(248)	(138)	(138)	(23)	(13)
Non tax-deductible expenses	560	747	115	64	103	120	68
Tax charge of prior periods	—	428	—	—	—	285	161
Other(3)	—	—	(106)	(59)	59	(18)	(10)
Income tax expense (benefit)	**2,431**	**(781)**	**3,108**	**1,734**	**593**	**3,211**	**1,812**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

(3) Other comprises 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 Income/(Loss) for the Year

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

The Bank had net income of GEL 11.0 million (US$6.2 million) for the six months ended 30 June 2006 compared to net income of GEL 6.2 million (US$3.4 million) for the six months ended 30 June 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 June	
	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)]
Assets						
Cash and cash equivalents	43,626	102,747	57,236	31,922	108,160	61,004
Amounts due from credit institutions	16,117	25,585	33,398	18,627	47,954	27,047
Loans to customers, net	141,780	169,868	297,376	165,854	447,883	252,613
Net investment in lease	—	598	4,314	2,406	4,958	2,796
Investment securities	1,742	19,628	10,607	5,916	2,283	1,288
Property and equipment, net	20,024	27,159	35,815	19,975	48,509	27,360
Intangible assets, net	2,025	6,286	7,685	4,286	25,254	14,244
Income tax assets	—	3,407	2,570	1,433	309	174
Prepayments	—	157	455	254	3,274	1,847
Other assets	4,808	7,737	11,114	6,198	26,999	15,228
Total assets	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**
Liabilities						
Amounts owed to credit institutions	50,237	48,334	78,873	43,989	138,308	78,008
Amounts owed to customers	123,573	252,129	269,952	150,559	444,889	250,924
Debt securities issued	—	—	1,143	637	1,333	752
Income tax liabilities	771	203	2,087	1,164	2,825	1,593
Provisions	472	971	975	544	—	—
Other liabilities	428	6,075	16,078	8,967	21,337	12,034
Total liabilities	**175,481**	**307,712**	**369,108**	**205,860**	**608,692**	**343,311**
Equity						
Share capital	9,856	11,273	14,729	8,215	15,538	8,764
Share premium	4,530	13,376	32,922	18,361	37,382	21,084
Treasury shares	—	(73)	(81)	(45)	(155)	(87)
Retained earnings	24,930	23,911	37,427	20,874	47,828	26,976
Other reserves	15,325	5,492	5,369	2,994	5,313	2,997
Total equity attributable to shareholders	**54,641**	**53,979**	**90,366**	**50,400**	**105,906**	**59,734**
Minority interests	—	1,481	1,096	611	985	556
Total equity	**54,641**	**55,460**	**91,462**	**51,011**	**106,891**	**60,290**
Total liabilities and equity	**230,122**	**363,172**	**460,570**	**256,871**	**715,583**	**403,601**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Total Assets

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

The 57.8% increase from GEL 230.1 million (US$110.9 million) as of 31 December 2003 to GEL 363.2 million (US$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 (US$199.0 million) as of 31 December 2004 to GEL 460.6 million (US$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 (US$93.1 million) as of 31 December 2004 to GEL 297.4 million (US$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 June 2006, the Bank had total assets of GEL 715.6 million (US$403.6 million), as compared to total assets of GEL 460.6 million (US$256.9 million) as of 31 December 2005. The 55.4% increase from GEL 460.6 million (US$256.9 million) as of 31 December 2005 to GEL 715.6 million (US$403.6 million) as of 30 June 2006 was primarily due to an increase in loans to customers, net, 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 (US$205.9 million), as compared to GEL 307.7 million (US$168.6 million) as of 31 December 2004 and GEL 175.5 million (US$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 June 2006, the Bank had total liabilities of GEL 608.7 million (US$343.3 million) as compared to total liabilities of GEL 369.1 million (US$205.9 million) as of 31 December 2005. The 64.9% increase in total liabilities from 31 December 2005 to 30 June 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 amounted to GEL 105.9 million (US$59.7 million) (14.8% of total assets) as of 30 June 2006, GEL 90.4 million (US$50.4 million) (19.6% of total assets) as of 31 December 2005, GEL 54.0 million (US$29.6 million) (14.9% of total assets) as of 31 December 2004 and GEL 54.6 million (US$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 (par value GEL 3.5 million) new Bank of Georgia shares during 2005 and net income in 2005. The increase in total shareholders' equity as of 30 June 2006 compared to 31 December 2005 was primarily due to issues of an aggregate of 0.8 million (par value GEL 0.8 million) new Bank of Georgia shares during the first six months of 2006 and net income in the first six 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 six months ended 30 June 2005 and 2006.

	Year ended 31 December				Six months ended 30 June		
	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)**	**(43,635)**	**34,763**	**19,607**
Net cash (used in)/from investing activities							
Acquisition of subsidiaries, net of cash acquired	—	7,066	(735)	(410)	—	10,049	5,668
Purchase of (proceeds from sale of) investment securities	7,712	(9,953)	9,021	5,031	(4,950)	9,368	5,284
Proceeds from sale (purchase) of investments in associates	(461)	—	(109)	(61)	(11)	(350)	(197)
Sale of property and intangible assets	156	213	437	244	403	128	72
Purchase of property and intangible assets	(5,353)	(6,319)	(12,997)	(7,249)	(2,736)	(8,149)	(4,596)
Net cash (used in)/from investing activities	**2,054**	**(8,993)**	**(4,383)**	**(2,445)**	**(7,294)**	**11,046**	**6,231**
Cash flows from financing activities							
Proceeds from issue of share capital	—	—	21,641	12,070	220	6,019	3,395
Purchase of treasury shares	—	(6,898)	(91)	(51)	—	(921)	(519)
Purchase of additional interest by the minority shareholder, net of cash acquired	—	—	365	204	365	—	—
Purchase of additional interest in existing subsidiaries, net of cash acquired		—	(550)	(307)	(490)	—	—
Sale of treasury shares	—	8,196	—	—	48	—	—
Proceeds from debt securities issued	—	—	1,143	637	—	190	107
Dividends paid to the shareholders of the Bank	(2,125)	(2,376)	(9)	(5)	(1)	(552)	(311)
Net cash (used in)/from financing activities	**(2,125)**	**(1,078)**	**22,499**	**12,548**	**142**	**4,736**	**2,672**
Effect of exchange rates changes on cash and cash equivalents	636	(2,215)	966	539	(1,247)	379	214
Net increase/(decrease) in cash and cash equivalents	**9,759**	**59,121**	**(45,511)**	**(25,383)**	**(52,034)**	**50,924**	**28,724**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

Cash Flows from Operating Activities

Net cash used in operating activities was GEL 64.6 million (US$36.0 million) in 2005, compared to net cash from operating activities of GEL 71.4 million (US$39.1 million) and GEL 9.2 million (US$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 (US$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 (US$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 34.8 million (US$19.6 million) for the six months ended 30 June 2006 compared to net cash used in operating activities of GEL 43.6 million (US$24.0 million) for the six months ended 30 June 2005. This change was primarily the result of the increase in net loans to customers being more than offset by the increase in amounts owed to credit institutions and amounts owed to customers.

Cash Flows (Used in from) Investing Activities

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

The Bank’s capital expenditures from 1 January 2003 through 30 June 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 (US$2.6 million), GEL 6.3 million (US$3.5 million) and GEL 13.0 million (US$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 11.0 million (US$6.2 million) for the six months ended 30 June 2006 compared to GEL 7.3 million (US$4.0 million) used in investing activities for the six months ended 30 June 2005. The change between the two periods was primarily due to a cash outflow of GEL 5.0 million (US$2.8 million) for the purchase of investment securities in the six months ended 30 June 2005 as compared to a cash inflow of GEL 9.4 million (US$5.3 million) in the six months ended 30 June 2006 from sales of investment securities. In addition, there was net cash acquired of GEL 10.1 million from the acquisition of subsidiaries in the six months ended 30 June 2006. In the six months ended 30 June 2005 and 2006, respectively, the Bank had cash outflows of GEL 2.7 million (US$1.5 million) and GEL 8.2 million (US$4.6 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 (US$12.5 million) in 2005 compared to net cash used in financing activities of GEL 1.1 million (US$0.6 million) and GEL 2.1 million (US$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 (US$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. This was offset by dividends paid to shareholders of GEL 2.4 million. Cash flow from financing activities in 2005 reflects proceeds from the issue of share capital of GEL 21.6 million and debt securities issued of GEL 1.1 million.

Net cash from financing activities was GEL 4.7 million (US$2.7 million) for the six months ended 30 June 2006 compared to net cash from financing activities of GEL 0.1 million (US$0.06 million) for the six months ended 30 June 2005. This change was primarily the result of the proceeds from the issue of share capital of GEL 6.0 million in 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 June	
	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)
Guarantees	16,781	19,454	34,777	19,396	56,686	31,972
Letters of credit	13,750	14,770	20,888	11,650	55,423	31,259
Undrawn loan commitments	9,091	8,783	15,751	8,785	22,130	12,482
Total credit related commitments	**39,622**	**43,007**	**71,416**	**39,831**	**134,239**	**75,713**
Operating lease commitments	11,277	8,161	5,613	3,131	6,598	3,721
Capital expenditure commitments	600	2	216	120	392	221
Provisions	(472)	(971)	(975)	(544)	—	—
Cash held as security against letters of credit and guarantees	(4,897)	(4,901)	(2,073)	(1,156)	(7,587)	(4,279)
Total financial commitments and contingencies	**46,130**	**45,298**	**74,197**	**41,382**	**133,642**	**75,376**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 on a Standalone Basis and on a Consolidated Basis

Bank of Georgia complies with the Basel Capital Accord standards ("Basel Standards") established by the Bank of International Settlements. The Basel Standards provide for a minimum capital adequacy ratio of 8%. 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.

	As of 31 December				As of 30 June	
	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, except ratios)(1)	(Amounts in thousands of Lari, except ratios) (Unaudited)	(Amounts in thousands of U.S. dollars, except ratios)(2)
Ordinary shares	9,856	11,273	14,729	8,215	15,538	8,764
Share premium	4,530	13,593	32,222	17,971	38,530	21,732
Retained earnings	34,651	23,807	37,281	20,793	46,596	26,281
Tier I capital	**49,037**	**48,673**	**84,232**	**46,978**	**100,664**	**56,776**
General loan loss provisions	1,167	1,452	3,757	2,095	5,540	3,125
Revaluation reserves	5,604	5,492	5,369	2,994	5,313	2,997
Tier II capital	**6,771**	**6,944**	**9,126**	**5,090**	**10,853**	**6,122**
Total capital	**55,808**	**55,617**	**93,358**	**52,068**	**111,517**	**62,898**
Risk-weighted assets	123,928	153,008	356,229	198,678	555,349	313,225
Deductions from capital	—	—	(8,529)	(4,757)	(37,524)	(21,164)
Capital adequacy ratios						
Tier I ratio(3)	39.6%	31.8%	23.6%	23.6%	18.1%	18.1%
Total capital ratio(4)	45.0%	36.3%	23.8%	23.8%	13.3%	13.3%

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 Bank of Georgia's regulatory capital on a consolidated basis.

	As of 31 December				As of 30 June	
	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, except ratios)[1]	(Amounts in thousands of Lari, except ratios)	(Amounts in thousands of U.S. dollars, except ratios)[2]
					(Unaudited)	
Ordinary shares	9,856	11,273	14,729	8,215	15,538	8,764
Share premium	4,530	13,376	32,922	18,361	37,382	21,084
Retained earnings	34,651	23,911	37,216	20,756	47,827	26,975
Tier I capital	**49,037**	**48,560**	**84,867**	**47,332**	**100,747**	**56,823**
General loan loss provisions	1,167	1,460	3,909	2,180	5,772	3,256
Revaluation reserves	5,604	5,492	5,369	2,994	5,313	2,997
Tier II capital	**6,771**	**6,952**	**9,278**	**5,175**	**11,085**	**6,252**
Total capital	**55,808**	**55,512**	**94,145**	**52,507**	**111,832**	**63,075**
Risk-weighted assets	123,928	151,062	368,422	205,478	573,878	323,677
Deductions from capital	—	(4,462)	(5,811)	(3,241)	(23,592)	(13,306)
Capital adequacy ratios						
Tier I ratio[3]	39.6%	32.1%	23.0%	23.0%	17.6%	17.6%
Total capital ratio[4]	45.0%	33.8%	24.0%	24.0%	15.4%	15.4%

Notes:
(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.
(3) Tier I capital divided by risk-weighted assets.
(4) Total capital less deductions divided by risk-weighted assets.

Bank of Georgia is required to comply with capital adequacy guidelines for Georgian banks set by the NBG. 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% 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% in subsidiaries, are weighted at 100% whereas, under Basel Standards methodology, investments in financial services companies are weighted at 0% and other investments are weighted at 100%; 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 969.2 million, GEL 85.9 million and GEL 88.5 million, respectively, as of 30 June 2006. The NBG requires Georgian banks to maintain a total capital adequacy ratio of 12% and a Tier I capital adequacy ratio of 8%. As of 30 June 2006, Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 9.1%, and Bank of Georgia's Tier I capital adequacy ratio was 8.9%. Accordingly, Bank of Georgia was in breach of the NBG's Tier I capital adequacy ratio. However, 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 February 2007, insofar as such ratios are affected by impact of the Intellect Bank acquisition. As of 31 October 2006, Bank of Georgia's total capital adequacy ratio calculated in accordance with the NBG's methodology was 12.5%, and Bank of Georgia's Tier I capital adequacy ratio was 7.8%.

Bank of Georgia's regulatory capital and capital ratios will increase as a result of the Offering.

Critical Accounting Policies

The Notes to the Bank's consolidated 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 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 audited consolidated 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%, 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. At 31 December 2005, 2004 and 2003 and as of 30 June 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 recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount. For investments carried at amortised 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 amortisation process.

Available-for-sale securities are subsequently 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. 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 ("IBNR") 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 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 for appropriate licenses to the State Securities Commission of Ukraine. As of the date of this Prospectus, GTU is managed by Dmytro Perepolkin and employs six 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 12 November 2006, BCI entered into the Aldagi MOU with the shareholders of Aldagi, a leading Georgian insurance company, in respect of the prospective purchase by BCI of a 100% equity interest in Aldagi. The purchase of Aldagi by BCI is subject to approval by the Supervisory Boards of BCI and Bank of Georgia as well as obtaining any required regulatory and government approvals. The maximum consideration payable by the Bank under the terms of the Aldagi MOU is GEL 13.2 million, or 1.9% and 12.4% of Bank of Georgia's total assets and shareholders' equity, respectively, as of 30 June 2006. Aldagi, established in 1990, is licensed to carry out life and non-life insurance activities and, according to information published by the Insurance State Supervision Service of Georgia, held a 23% market share based on gross premiums written for the nine months ended 30 September 2006.

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

In March 2006, Bank of Georgia received a US$25 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 of equity financing through the sale of 750,000 newly issued common shares of Bank of Georgia.

In August 2006, Bank of Georgia received a US$5 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 US$25 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 a bond offering by Bank of Georgia, scheduled to occur in early 2007.

In September 2006, Bank of Georgia received a US$25 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 the first two years of its term at a 20% premium to the Offer Price. 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 of equity financing through the sale of 400,000 newly issued common shares of Bank of Georgia.

On 6 November 2006, the Bank established its 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 will subscribe to 850,000 Shares of Bank of Georgia in the form of restricted GDRs at GEL 1.00 per share on or around the Closing Date. The trust is further expected to subscribe to an additional 650,000 shares of the Bank in the form of restricted GDRs, which management expects to occur in 2007, subject to the availability of authorised and unissued shares. See "Management and Employees — Executive Equity Compensation Plan".

DESCRIPTION OF BUSINESS

Overview

As of 30 September 2006, Bank of Georgia was the largest bank in Georgia based on total equity and was the second largest bank in Georgia based on total assets (with a 22.5% market share), total loans (with a 23.7% market share) and total deposits (with a 21.0% 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. At the time of its privatisation, Bank of Georgia was established as a universal bank operating in Georgia under registration number 06/5-07. The Bank'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 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, currently serving over 380,000 retail clients through its branch network and electronic distribution channels. The Bank's retail banking products and services include 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), plastic 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. Since the beginning of 2005, the Bank has launched a series of packaged retail products and has recently started to offer 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. As of 31 October 2006, Bank of Georgia had the second largest branch network in Georgia, with 98 branches, including full-service flagship branches, service centres and smaller-scale sales outlets. Bank of Georgia also has the largest ATM network in Georgia, comprising 111 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 account administration and cash management services, payroll services, corporate lending, 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 operates an integrated client coverage model for its corporate customers, whereby each 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, leasing, insurance and retail banking (with respect to payroll services). The Bank provides corporate finance advisory services on mergers and acquisitions and investment banking services related to capital raisings through its wholly-owned subsidiary, Galt & Taggart Securities.

The Bank, through its wholly-owned insurance subsidiary BCI, is a leading insurance provider in Georgia and, for the nine months ended 30 September 2006, had a 20.0% share of the Georgian insurance market based on gross written premiums (compared to a 14.5% market share in 2005), according to information published by the Insurance State Supervision Service of Georgia. 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; performance bonds and guarantees. BCI sells its consumer insurance products under the *Chemebi* brand.

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. The Bank's private banking services are offered to affluent resident and non-resident clients. As of 31 October 2006, the Bank served 807 private banking clients. Through BCI, the Bank operates a defined contribution pension scheme, participation in which is available to both employees of the Bank's corporate clients and individual consumers. Galt & Taggart Securities serves as the portfolio manager of the pension scheme. As of 31 October 2006, the pension scheme had 1,957 participants. Galt & Taggart Securities offers broker-dealer and asset management services to resident and non-resident institutional and retail clients. In the nine months ended 30 September 2006, Galt & Taggart Securities had an approximately 85.0% share of the broker-dealer market based on trading volume on the GSE, according to information published by the GSE. 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. The Bank has recently established GTU in Ukraine and is considering broker-dealer opportunities in other locations.

As of 30 June 2006, the Bank's total assets were GEL 715.6 million (US$403.6 million) compared to total assets of GEL 460.6 million (US$254.1 million) as of 30 June 2005. The Bank's total assets amounted to GEL 460.6 million (US$256.9 million), GEL 363.2 million (US$199.9 million) and GEL 230.1 million (US$110.9 million) as of 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, the Bank's total equity was GEL 106.9 million (US$60.3 million) compared to total equity of GEL 61.9 million (US$34.9 million) as of 30 June 2005. The Bank's total equity amounted to GEL 91.5 million (US$51.0 million), GEL 55.5 million (US$30.4 million) and GEL 54.6 million (US$26.3 million) as of 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006, the Bank's net income was GEL 11.0 million (US$6.2 million) compared to net income of GEL 6.2 million (US$3.4 million) for the six months ended 30 June 2005. The Bank's net income amounted to GEL 13.6 million (US$7.6 million), a net loss of GEL 7.3 million (US$4.0 million) and net income of GEL 9.2 million (US$4.4 million) for the years ended 31 December 2005, 2004 and 2003, respectively.

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 19 banks in 21 countries as of 30 June 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.

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 13.74% shareholding in Bank of Georgia, and in 2001, DEG acquired a 11.09% shareholding in Bank of Georgia. In 2001, Bank of Georgia became the first company to list its securities on the GSE.

In December 2003, Bank of Georgia acquired a 35% equity interest in Galt & Taggart Securities, a Georgian investment banking firm, which interest was increased to 53% in 2004 and 100% 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's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") were replaced, and by the end of 2004, two members of the Bank'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 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% equity interest in GLC, the second-largest leasing company in Georgia, and an 8% equity interest in Galt & Taggart Securities. Bank of Georgia increased its ownership in GLC and Galt & Taggart Securities to 100% 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 enabling the Bank 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% and 80%, respectively, of EuroPace, which at the time of the acquisition was the sixth largest insurance company in Georgia based on gross premiums written. The acquisition of BCI resulted in the Bank gaining several experienced members of management.

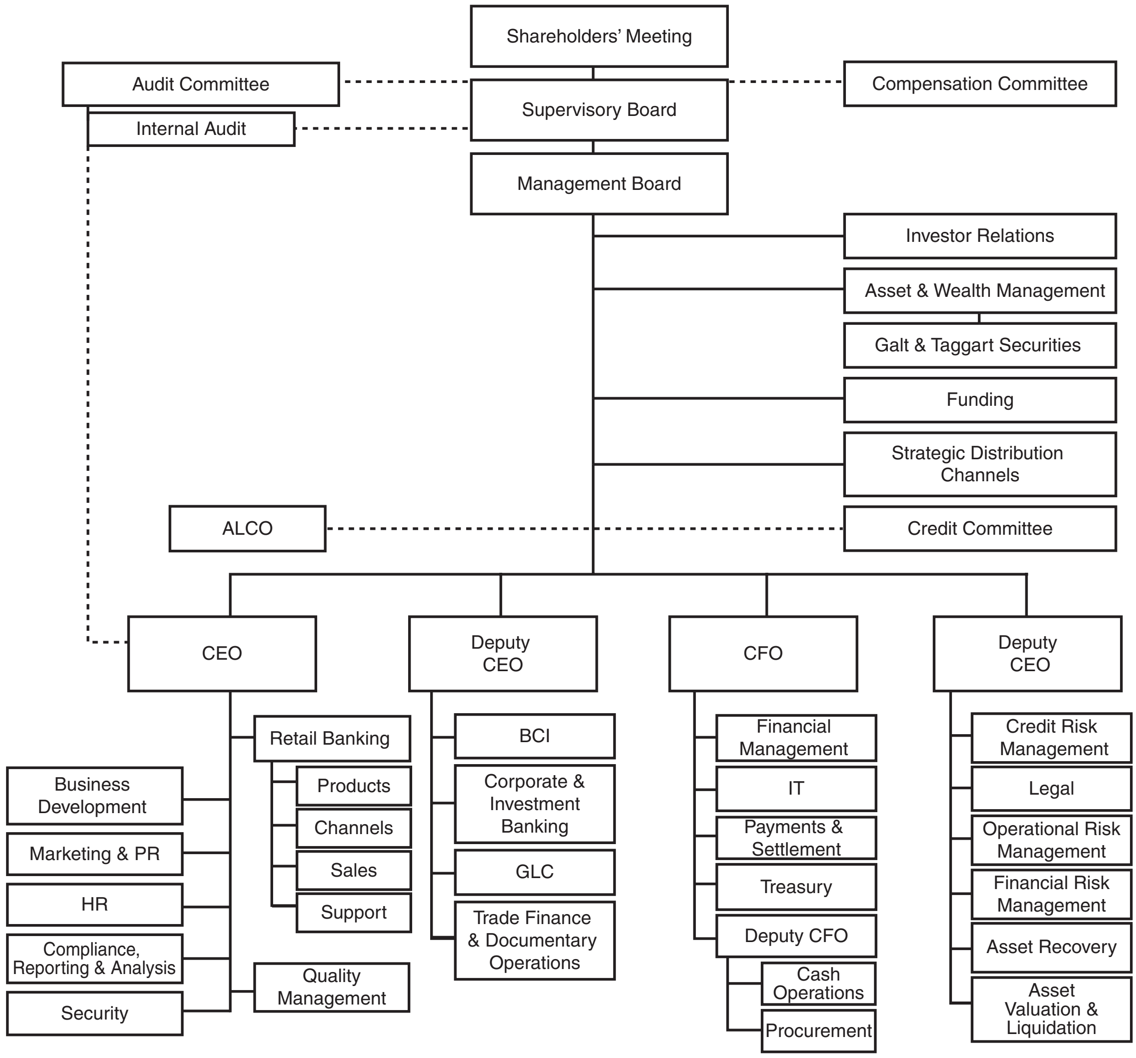
In February 2006, Bank of Georgia purchased the assets and liabilities of Intellect Bank, which was then under temporary administration by the NBG. At the time of the acquisition, Intellect Bank was the ninth largest bank by assets in Georgia based on information published by the NBG. Although the asset 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, 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 up to 98% of the shares in the Ukrainian bank. Bank of Georgia's purchase of the shares in the Ukrainian bank is subject to satisfactory completion of due diligence of the Ukrainian bank and reaching agreement with the shareholders of the Ukrainian bank on the terms of the acquisition, as well as obtaining required corporate and governmental approvals. Although the terms of the acquisition have not been agreed and there can be no assurance that the acquisition will take place, the purchase price for such an acquisition could be equivalent to a significant portion of Bank of Georgia's net proceeds from this Offering. As at 31 October 2006, Bank of Georgia owned 2.82% of this Ukrainian bank and had a total investment of US$2.0 million.

On 23 October 2006, the Bank established GTU in Ukraine. On 12 November 2006, BCI entered into the Aldagi MOU with the shareholders of Aldagi. 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 September 2006, there were 19 commercial banks registered in Georgia, 18 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 September 2006, the aggregate assets of all banks in Georgia were approximately GEL 3.8 billion, with the five largest banks accounting for approximately 80% 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 September 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%	3,016,568	3,753,480	80%
Gross loans	1,415,146	1,730,466	82%	2,107,969	2,525,891	83%
Total deposits	1,287,534	1,538,061	84%	1,863,249	2,189,745	85%
Shareholders' equity	326,704	479,488	68%	453,728	638,806	71%
Net income	52,232	61,756	85%	52,299	65,641	80%

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 September 2006, Bank of Georgia was the largest bank in Georgia based on total equity and the second largest bank in Georgia based on total assets (with a 22.5% market share), total loans (with a 23.7% market share) and total deposits (with a 21.0% 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. 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 31 October 2006, the Bank had the second largest branch network in Georgia, with 98 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 111 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 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, 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.

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. 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. The Bank believes there is a significant opportunity to expand the 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 the 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. 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 services. Management is actively and selectively considering regional expansion opportunities and aims to commence its regional expansion by utilising part of proceeds of the Offering for these purposes.

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), 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 June 2006, the Bank's loans to retail banking customers were GEL 175.5 million (US$99.0 million), or 37.1% of the Bank's total loans, as compared to GEL 122.3 million (US$68.2 million), GEL 62.4 million (US$34.2 million) and GEL 46.9 million (US$22.6 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, the Bank's current accounts, demand deposits and time deposits from retail customers were GEL 182.7 million (US$103.0 million), or 41% of the Bank's total amounts owed to customers, as compared to GEL 147.2 million (US$82.1 million) and GEL 115.0 million (US$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 the sale of 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), 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 78,000 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 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 June 2006, the Bank's current accounts, demand deposits and time deposits from retail customers were GEL 182.7 million (US$103.0 million), or 41% of the Bank's total amounts owed to customers, as compared to GEL 147.2 million (US$82.1 million) and GEL 115.0 million (US$62.9 million) at 31 December 2005 and 2004, respectively.

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

	As of 31 December 2005		As of 30 June 2006	
	(Amounts in thousands 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 retail customers [(3)]	147,226	82,112	182,719	103,057

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 175.5 million (US$99.0 million) as of 30 June 2006, compared to GEL 122.3 million (US$68.2 million), GEL 62.4 million (US$34.2 million) and GEL 46.9 million (US$22.6 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, retail loans comprised approximately 37.2% 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 June 2006		
	(Amounts in thousands 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%	61,745	34,825	35.2%
Mortgage loans[(4)]	32,846	18,319	26.8%	46,671	26,323	26.6%
General consumer loans[(4)]	17,395	9,702	14.2%	29,689	16,745	16.9%
Pawn loans	21,442	11,959	17.5%	24,879	14,032	14.2%
Automobile loans[(4)]	2,787	1,554	2.3%	6,765	3,815	3.9%
POS loans	—	—	—	2,428	1,370	1.4%
Other (including overdrafts)[(5)]	2,570	1,433	2.1%	3,297	1,860	1.9%
Total retail banking loans	**122,343**	**68,234**	**100.0%**	**175,475**	**98,971**	**100.0%**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 US$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 June 2006, the Bank had approximately GEL 61.7 million in micro-financing loans outstanding, accounting for approximately 35% 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 June 2006, the Bank had approximately GEL 46.7 million in retail banking mortgage loans outstanding, or approximately 27% 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-installment 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 June 2006, the Bank had approximately GEL 29.7 million in general consumer loans outstanding, or approximately 17% 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 June 2006, the Bank had approximately GEL 24.9 million in pawn loans outstanding, accounting for approximately 14% 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 31 October 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 installment payment option to car buyers. As of 30 June 2006, the Bank had approximately GEL 6.8 million in automobile loans outstanding, approximately 4% of retail loans. The Bank additionally provides automobile loans to private banking clients as part of its asset and wealth management business.

- *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 20,000 or its equivalent in U.S. dollars. Such loans are secured by a pledge of the goods purchased with the loan. As of 31 October 2006, the Bank had entered into distribution agreements with 338 merchants, 239 of which are exclusive in connection with providing POS loans. As of 30 June 2006, the Bank had approximately GEL 2.4 million in POS loans outstanding, accounting for approximately 1% of the Bank's total retail and private banking loans.

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 has distribution agreements with American Express with respect to American Express Cards. 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 250,000 cards outstanding as of 31 October 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 by the end of 2006 and in 2007, to the general public.

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 Consolidated 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 31 October 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 31 October 2006, Bank of Georgia had 98 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, 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 31 October 2006, Bank of Georgia had distribution agreements for POS loan with a total of 338 merchants. Bank of Georgia also has the largest ATM network in Georgia as of 31 October 2006, comprising 111 ATMs. As of 31 October 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, 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 26% as of 30 June 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 31 October 2006, the Bank had approximately 42,800 corporate banking customers, 1,998 of which were served by a dedicated relationship banker. Approximately 1,744 of these 1,998 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 June 2006, the Bank's loans to corporate banking customers were GEL 279.3 million (US$157.5 million), or 59% of the Bank's total loans to customers gross of allowance for loan impairment, as compared to GEL 183.6 million (US$102.4 million), GEL 104.2 million (US$57.1 million) and GEL 101.7 million (US$49.0 million) at 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, the Bank's current accounts, demand deposits and time deposits from corporate banking customers were GEL 244.5 million (US$137.9 million), or 55% of the Bank's total amounts owed to customers, as compared to GEL 112.9 million (US$63.0 million) and GEL 137.1 million (US$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 loans and 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 June 2006		
	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[1]	% of total corporate banking loans	(Amounts in thousands of Lari)	(Amounts in thousands of U.S. dollars)[2]	% of total corporate banking loans
				(Unaudited)		
Financial institutions	2,276	1,269	1.2%	556	314	0.2%
Telecommunications, media and technology	2,896	1,615	1.6%	3,108	1,753	1.1%
Foreign organisations[3]	1,220	680	0.7%	1,129	637	0.4%
Consumer goods	29,410	16,403	16.0%	36,170	20,400	13.0%
Retail and wholesale trade	24,108	13,446	13.1%	49,237	27,770	17.6%
Industry and state[4]	10,516	5,865	5.7%	16,150	9,109	5.8%
Energy	11,519	6,424	6.3%	33,534	18,914	12.0%
Transport and logistics	1,592	888	0.9%	935	527	0.3%
Construction and real estate	18,753	10,459	10.2%	43,041	24,276	15.4%
Pharmaceuticals and healthcare	10,954	6,109	6.0%	14,781	8,337	5.3%
SMEs	57,894	32,289	31.5%	76,373	43,076	27.3%
Other[5]	12,421	6,927	6.8%	4,256	2,400	1.5%
Total corporate banking loans	**183,559**	**102,375**	**100%**	**279,270**	**157,513**	**100%**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 279.3 million (US$157.5 million) as of 30 June 2006, or 59.2% of the Bank's total loans to customers compared to GEL 183.6 million (US$102.4 million), or 58% of total loans to customers, GEL 104.2 million (US$57.1 million), or 55% of total loans to customers, and GEL 101.7 million (US$49.0 million), or 67% of total loans to customers, as of 31 December 2005, 2004 and 2003, respectively. For the six months ended 30 June 2006, the Bank had interest income from loans and advances to corporate banking customers of GEL 16.5 million (US$9.3 million) compared to GEL 22.6 million (US$12.6 million), GEL 16.4 million (US$9.0 million) and GEL 15.4 million (US$7.4 million) for the year ended 31 December 2005, 2004 and 2003, respectively. The Bank's ten largest corporate borrowers accounted for 8.0% of its total loans to customers gross of allowance for impairment losses as of 30 June 2006 as compared to 47.3% of its total corporate loan portfolio 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 June 2006, the Bank had a total of GEL 244.5 million (US$137.9 million) in current accounts, time deposits and demand deposits from corporate customers, representing 55% of the Bank's total amounts owed to customers as of that date, as compared to GEL 112.9 million (US$63.0 million), GEL 137.1 million (US$75.1 million) and GEL 53.7 million (US$25.9 million) at 31 December 2005, 2004 and 2003, respectively. The Bank's corporate deposits as of 30 June 2006 consisted of GEL 191.8 million (US$108.2 million) in current accounts and demand deposits and GEL 52.8 million (US$29.8 million) in time deposits as compared to GEL 87.0 million (US$48.5 million) and GEL 25.8 million (US$14.4 million), respectively, as of 31 December 2005.

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

	As of 31 December 2005		As of 30 June 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	244,510	137,907

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 437 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 approximately 78,000 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% 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 31 October 2006, the Bank had trade finance loan limits of GEL 56.1 million, of which GEL 20.9 million were utilised, and documentary operation limits of GEL 81.2 million, of which GEL 76.8 million were utilised, from international financial institutions, including EBRD, US Export-Import Bank, Commerzbank, UBS, Citibank, American Express Bank, Kazkommerzbank, Vneshtorgbank, SACE-Unicredito, AKA-Eurler Hermes and others.

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 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 premiums written for the nine months ended 30 September 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 six months ended 30 June 2006, gross premiums written by BCI were GEL 7.0 million (US$3.9 million) compared to GEL 7.9 million (US$4.4 million) (with a market share of 19.3%), for the year ended 31 December 2005 (with a market share of 13.0%). According to the State Insurance Supervision Service of Georgia, for the six months ended 30 June 2006, the Bank had market shares of 13.2% and 45.0%, respectively, for health insurance and life insurance based on gross premiums written.

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 State Insurance Supervision Service of Georgia has an insurance penetration rate (as measured by gross premiums written as a percentage of GDP) of 0.5% of Georgian GDP as of 30 June 2006 based on gross premiums written, 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 June 2006, the Bank's current accounts, demand deposits and time deposits from private banking customers were GEL 17.7 million (US$10.0 million), or 4% of the Bank's total amounts owed to customers, as compared to GEL 9.9 million (US$ 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 June 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	17,660	9,960

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 30 June 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 31 October 2006, the Bank served over 807 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, US$, 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 also offers financial planning and lifestyle management services to its private banking clients.

Through BCI, in coordination with Galt & Taggart Securities, the Bank operates a private pension scheme (the "BCI Pension Scheme"), which was established in June 2005 and operates as a defined contribution pension scheme. The BCI Pension Scheme is offered to both individual and corporate clients and as of 31 October 2006 had over 1,957 participants.

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

	As of 31 December 2005			As of 30 June 2006		
Private Banking Loans	(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%	3,849	2,170	22.3%
Mortgage loans	4,966	2,770	59.0%	11,104	6,263	64.3%
Automobile loans	294	164	3.5%	1,348	760	4.8%
Other (including overdrafts)(3)	610	340	7.2%	961	542	5.6%
Total Private Banking Loans	**8,416**	**4,694**	**100.0%**	**17,260**	**9,735**	**100.0%**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG as of 30 June 2006.

(3) Other comprises overdrafts, other plastic banking cards and private banking loans with terms 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. For the nine months ended 30 September 2006, Galt & Taggart Securities had an approximately 85% market share based on trading volume on the GSE, according to information published by the GSE. Client assets under custody and management of Galt & Taggart Securities grew to approximately GEL 228.3 million 30 September 2006 from GEL 144.1 million (US$81.3 million) as of 30 June 2006 and from GEL 68.1 million (US$38.0 million) and GEL 21.1 million (US$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 is in the process of concentrating all of its merchant banking assets under the ownership of GTC, including those subsidiaries listed in the Notes to the Consolidated Financial Statements. GTC was admitted to trading on the GSE in November 2006 and is in the process of placing approximately 15% of its outstanding shares with third-party investors.

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 June 2006, total amounts owed to customers amounted to GEL 444.9 million (US$250.9 million) as compared to GEL 270.0 million (US$150.6 million), GEL 252.1 million (US$138.1 million) and GEL 123.6 million (US$59.5 million) as of 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, amounts owed to credit institutions amounted to GEL 138.3 million (US$78.0 million) as compared to GEL 78.9 million (US$44.0 million), GEL 48.3 million (US$26.5 million) and GEL 50.2 million (US$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 Bank expects to access the international debt capital markets prior to the end of the first quarter of 2007.

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

	As of 31 December				As of 30 June	
	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	365	206
Time deposits and loans	25,551	23,627	37,007	20,640	109,383	61,694
Borrowings from international credit institutions	24,348	24,594	41,722	23,269	28,560	16,108
Total amounts owed to credit institutions	50,237	48,334	78,873	43,989	138,308	78,008
Amounts Owed to Customers						
Time deposits	66,509	110,551	132,656	73,985	186,395	105,130
Current accounts	57,064	141,578	137,296	76,573	258,494	145,795
Total amounts owed to customers	123,573	252,129	269,952	150,559	444,889	250,924
Debt Securities Issued						
Promissory notes issued	—	—	1,143	637	1,333	752
Total debt securities issued	—	—	1,143	637	1,333	752
Total banking liabilities[3]	**173,810**	**300,463**	**349,968**	**195,186**	**584,530**	**329,684**
Total income tax liabilities	771	203	2,087	1,164	2,825	1,593
Provisions	472	971	975	544	—	—
Total other liabilities	428	6,076	16,078	8,967	21,337	12,034
Total liabilities	**175,481**	**307,712**	**369,442**	**206,047**	**608,692**	**343,312**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

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

Total Amounts Owed to Customers

Total 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 444.9 million (US$250.9 million) as of 30 June 2006 from GEL 270.0 million (US$150.6 million), GEL 252.1 million (US$138.1 million) and GEL 125.6 million (US$60.5 million) as of 31 December 2005, 2004 and 2003, respectively. As of 30 June 2006, amounts owed to customers in the amount of GEL 106.9 million (US$60.3 million) (24.0% of total customer accounts) were attributable to the Bank's ten largest deposit customers.

The Bank accepts deposits in Lari and foreign currencies. As of 30 June 2006, 66.4% of the Bank's total customer accounts were in foreign currencies, principally in U.S. Dollars.

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

	As of 31 December				As of 30 June	
	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)
Current accounts	57,064	141,578	137,296	76,573	258,494	145,795
Time deposits	66,509	110,551	132,656	73,985	186,395	105,130
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**148,898**	**444,889**	**250,924**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

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

	As of 31 December				As of 30 June	
	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)
Foreign currency deposits(3)	104,293	192,182	193,457	106,705	295,500	166,667
Lari	19,280	59,947	76,495	42,192	149,389	84,258
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**148,898**	**444,889**	**250,924**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 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 June	
	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	196,600	110,886
Private enterprises	44,825	110,081	86,123	48,033	168,488	95,030
State and budgetary organisations	7,114	26,556	27,456	15,313	77,464	43,691
Employees	345	1,274	1,809	1,009	2,337	1,318
Other(3)	1,729	—	—	—	—	—
Total amounts owed to customers	**123,573**	**252,129**	**269,952**	**148,898**	**444,889**	**250,924**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL 1.793 per US$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 1.773 per US$1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by the NBG on 30 June 2006.

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

Total Amounts Owed to Credit Institutions

Total 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 June 2006, total amounts owed to credit institutions were GEL 138.3 million (US$78.0 million), representing 22.7% of the Bank's total liabilities as of that date. Total amounts owed to credit institutions were GEL 78.8 million (US$43.9 million), GEL 48.3 million (US$26.5 million) and GEL 50.2 million (US$24.2 million) as of 31 December 2005, 2004 and 2003, respectively.

As of 30 June 2006, 11.2% of amounts owed to credit institutions were denominated in Lari and 88.8% were denominated in other currencies, and 34.8% 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 June	
	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) (Unaudited)
Current accounts	338	113	144	80	365	206
Time deposits and interbank loans(3)	25,551	23,627	37,007	20,640	109,383	61,694
Borrowings from international credit institutions(4)	24,348	24,594	41,722	23,269	28,560	16,108
Total amounts owed to credit institutions	**50,237**	**48,334**	**78,873**	**43,989**	**138,308**	**78,008**

Notes:

(1) Converted into U.S. dollars for convenience using an exchange rate of GEL1.793 per US$ 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 GEL1.773 per US$ 1.00, being the official Georgian Lari to U.S. dollar exchange rate as reported by NBG on 30 June 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 September 2006, Bank of Georgia obtained a US$25 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% premium to the Offer Price. 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 US$25 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 bond offering by Bank of Georgia, which is scheduled for early 2007.
- In August 2006, Bank of Georgia obtained US$5 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 US$25 million unsecured 18-month term loan from Citigroup.
- In February 2006, Bank of Georgia also obtained a US$10 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 million from the NBG.
- In 2005, Bank of Georgia obtained a US$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 US$10 million five-year participation facility 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 US$5 million six-year loan with EBRD and a US$5 million seven-year loan with IFC, each to fund the Bank's SME lending activities.
- In 2002, Bank of Georgia signed a EUR 3 million seven-year loan with DEG to fund the Bank's SME lending activities.
- In 2000, Bank of Georgia signed a EUR 2 million eight-year loan with DEG and a US$3 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 6.20%, including subordinated facilities in the nine months ended 30 June 2006, and from LIBOR plus 4% to LIBOR plus 5.25% in 2003, 2004 and 2005. Interest rates for the Bank's euro borrowings ranged from EURIBOR plus 4.25% to EURIBOR plus 4.25% in the six months ended 30 June 2006 and from EURIBOR plus 4.25% to EURIBOR plus 6% in 2003, 2004 and 2005.

In addition, the Bank has trade finance lines from EBRD (EUR 20.5 million), AKA and Euler Hermes (EUR5 million), Citibank N.A. (US$4.7 million), Commerzbank (EUR 4 million), Sace and Unicredito Italiano S.p.A (EUR3.5 million), Kazkommerzbank (US$3 million), American Express Bank (US$2 million), Ceska Exportni Banka (US$2 million), Vneshtorgbank (US$1 million) and UBS (US$1 million), each amount as of 31 October 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 CIS. Also in November 2006 US Export-Import Bank extended a trade finance line of US$20 million to Bank of Georgia and American Express increased its trade finance line to US$3 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 the US$25 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 June 2006, the outstanding coupon bonds totaled GEL 1.25 million. Bank of Georgia is expecting to access the international debt capital markets prior to the end of the first quarter of 2007.

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 shares on several occasions since the fourth quarter of 2004. In December 2004, the Bank raised GEL 8.2 million through the issue of 1,417,780 new common shares. During 2005, the Bank raised an aggregate of GEL 23.1 million from the issue of an aggregate of 3,455,318 new common shares and from 1 January 2006 to 31 October 2006 the Bank raised an aggregate of GEL 30.0 million from the issue of an aggregate of 2,192,686 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 GSE.

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 the Bank'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 the Bank of Georgia's lending and approval process is its Credit Committee. The Credit Committee supervises and manages the 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 the Bank'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 Credit Risk Management and approves loans resulting in Bank of Georgia's overall exposure to the borrower of US$10,000-US$100,000 for corporate banking loans and US$10,000-US$50,000 for retail banking loans. The second-level committee is chaired by the Director of Credit Risk Management and approves loans resulting in the Bank of Georgia's overall exposure to the borrower of US$100,000-US$200,000 for corporate banking loans and US$50,000-US$200,000 for retail banking loans. The third-level committee is chaired by the Bank's Deputy CEO in charge of Risk Management and approves loans resulting in Bank of Georgia's overall exposure to the borrower of US$200,000-US$500,000. The fourth-level committee is chaired by Bank of Georgia's CEO and approves loans resulting in Bank of Georgia's single borrower lending exposure exceeding US$500,000. All exposures to single borrowers over US$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 US$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 US$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. See "Risk Factors — Risks Relating to the Bank's Business and Industry — Absence of Centralised Credit Information".

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 June 2006, 92% 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.

Asset Valuation and Liquidation and Legal 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 wells as non-impaired prime rated significant loans, are assessed collectively within the sub-loan-portfolio categories based upon historical loss rates.

As of 30 June 2006, the Bank's allowance for loan impairment under IFRS was 5.1% 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.

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 4.3 million (US$2.4 million) in information technology for the six month period ended 30 June 2006 as compared to approximately GEL 2.1 million (US$1.2 million), GEL 1.8 million (US$1.0 million) and GEL 0.9 million (US$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 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 June 2006, the Bank owned real estate in Tbilisi (19 premises with an aggregate area of approximately 44,143 square metres) and other regions in Georgia (34 premises with an aggregate area of approximately 21,250 square metres). The Bank also leased 30 premises in Tbilisi with an aggregate area of approximately 6,033 square metres and 18 premises in other regions of Georgia with an aggregate area of approximately 2,278 square metres. In addition, as of 30 June 2006 the Bank owned land plots with an aggregate area of 23,673 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 June 2006, the total net book value of the real estate and land owned by the Bank was GEL 29.3 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 #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 Commercial Banks' Activity 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 #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 #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 713,000 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".

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 aggressively 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 the Management Board, Supervisory Board, the Credit Committee and the "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 US$4 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 US$10,000-100,000 for corporate banking loans and US$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 US$100,000-200,000 for corporate banking loans and US$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 US$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 US$500,000. Loans resulting in the Bank's single borrower lending exposure above US$4 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. The Compliance 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 & Analysis department consists of the following distinctly separate units: AML Compliance, Legal Compliance and Tax Compliance. The AML Compliance unit is fully independent of all other business functions. Its primary goal is development, periodic review and update of AML policies and procedures and KYC policies and procedures, as well as ensuring strict adherence of all business processes in the bank to the adopted AML measures. The AML Compliance unit 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 unit conducts due diligence on potential business partners, carefully screens counterparties and the adequacy of their AML capabilities and compliance with FATF/GAFI Recommendations. The 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, inter-bank 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. This risk of liquidity 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 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 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 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 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 June 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	54,661	52,076	1,423	—	—	—	—	108,160
Due from credit institutions	39,642	1,465	643	5,483	721	—	—	47,954
Loans to customers	—	47,027	55,499	132,871	162,086	35,662	14,738	447,883
Net investment in lease	—	—	—	54	3,926	978	—	4,958
Investment securities:								
— available-for-sale	588	—	—	1,229	3	263	—	2,083
— held-to-maturity	—	—	—	200	—	—	—	200
	94,891	**100,568**	**57,565**	**139,837**	**166,736**	**36,903**	**14,738**	**611,238**
Liabilities:								
Owed to credit institutions	37,336	3,457	733	6,572	88,381	1,829	—	138,308
Owed to customers	274,654	11,800	41,503	74,932	40,447	1,553	—	444,889
Debt securities issued	—	—	—	—	1,333	—	—	1,333
	311,990	**15,257**	**42,236**	**81,504**	**130,161**	**3,382**	**—**	**584,530**
Net position	**(217,099)**	**85,311**	**15,329**	**58,333**	**36,575**	**33,521**	**14,738**	**26,708**
Accumulated gap	**(217,099)**	**(131,788)**	**(116,459)**	**(58,126)**	**(21,551)**	**11,970**	**26,708**	

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 tables above.

The Bank was in breach of several debt covenants as of 30 June 2006. Subsequent to 30 June 2006, the Bank received compliance waivers from the respective financial institutions. As the compliance waivers were received after 30 June 2006 and as required by IAS 1, loans from financial institutions of GEL 29.5 million (as compared to GEL 16.4 million as of 31 December 2005) with contractual maturities ranging from 13 to 84 months (as compared to 13-57 months as of 31 December 2005) were presented in on demand category. As of 30 June 2006, before considering the impact of the required presentation of such loans in accordance with IAS 1, the Bank's accumulated negative liquidity gap for the maturities up to one year totals GEL 28.6 million (as compared to GEL 23.9 million as of 31 December 2005).

The Bank'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.

Management has adopted the following action plan to improve the liquidity position of the Bank:

- In August 2006, Bank of Georgia received a US$5 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 US$25 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 a bond offering by Bank of Georgia, which is scheduled in early 2007.
- In September 2006, Bank of Georgia received a US$25 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 the first two years of its term at a 20% premium to the Offer Price. Bank of Georgia has the right to prepay the loan at the end of the convertibility period or after five years, in each case, subject to the consent of the NBG.

As of 30 June 2006, total amounts owed to customers were GEL 444.9 million (as compared to GEL 270.0 million as of 31 December 2005) and represented 73% (as compared to 73% as of 31 December 2005) of the Bank's total liabilities. As of 30 June 2006, amounts owed to credit institutions accounted for GEL 138.3 million (as compared to GEL 78.9 million as of 31 December 2005) and represented 23% (as compared to 21% as of 31 December 2005) of total liabilities. Amounts owed to credit institutions are taken from a wide range of counterparties.

Management believes that 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 US$30,000 for a one-day trading period with 95% "tolerance threshold", but the open position is limited to a maximum of 10% of its equity capital. The ALCO limit of 10% is more conservative than NBG and Basel Standards, which allows banks to keep open positions of up to 20% of equity capital. The Bank additionally limits open foreign currency positions other than U.S. dollars and Lari to GEL 500,000.

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

	GEL	Other (Freely Convertible)	Other (Non Convertible)	Total
	(Amounts in thousands of Lari)			
Assets	313,373	400,818	1,392	715,583
Liabilities	180,166	427,177	1,349	608,692
Currency exposure	**133,207**	**(26,359)**	**43**	**106,891**

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 as a percentage of loan and treasury portfolio) 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 June 2006 based on contractual maturity 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	54,661	52,076	1,423	—	—	—	108,160
Due from credit institutions	214	28,187	3,658	11,546	4,211	138	47,954
Loans to customers	—	47,027	55,499	132,871	162,086	50,400	447,883
Net investment in lease	—	—	—	54	3,926	978	4,958
Investment securities:							
— available-for-sale	588	—	—	1,229	3	263	2,083
— held-to-maturity	—	—	—	200	—	—	200
	55,463	**127,290**	**60,580**	**145,900**	**170,226**	**51,779**	**611,238**
Liabilities:							
Owed to credit institutions	365	3,811	70,001	30,114	32,188	1,829	138,308
Owed to customers	214,139	87,384	34,018	68,411	39,384	1,553	444,889
Debt securities issued	—	—	—	—	1,333	—	1,333
	214,504	**91,195**	**104,019**	**98,525**	**72,905**	**3,382**	**584,530**
Net position	**(159,041)**	**36,095**	**(43,439)**	**47,375**	**97,321**	**48,397**	**26,708**

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 June 2006, the Bank's floating rate borrowings accounted for approximately 15.8% 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 its 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 Bank's 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 — 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
Watch	Relatively low	10
Substandard	Distinct	30
Doubtful	High	50
Loss	Uncollectible	100

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
BA	5
BB	10
CA	20
CB	30
DA	50
DB	75
E	100

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. 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 a result of the Bank's previous management failing to recognise certain bad loans over the period from 2002 to 2004 and therefore the Bank having inadequate provisions for loan losses.

The Bank believes it 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 (20% of the Bank's gross loan portfolio) at 31 December 2004 to GEL 33.2 million (11% of the Bank's gross loan portfolio) at 31 December 2005. As of 30 June 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 68 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 June 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, of which GEL 12.0 million was written-off as of such date. As of 31 December 2005, GEL 7.2 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 of this amount represented previously written-off loans that were later recovered. During the six months ended 30 June 2006, the Bank collected another GEL 2.9 million from the Bank's gross non-Standard borrowers, of which GEL 0.3 million were non-Standard loans that were previously written-off.

For a detailed description of the Bank's lending policies and procedures, see "Description of Business — Lending Policies are 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.

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 Bank's operational risk control and management system procedures include identification of sources and levels of operational risk, detections of critical risk zones or groups of operations with an increased level of risk, development of response actions and the imposition of restrictions in critical risk zones to neutralise identified risks and the development of business-process optimisation schemes.

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) "know-your-customer" 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 & 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 the department of suspicious transactions, using the criteria set out in Bank of Georgia's internal anti-money laundering regulations. The Compliance, Reporting & 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 & Analysis department obtains additional information about a particular transaction's purpose and/or suspends suspicious transactions. See "Description of Business — Litigation".

The Compliance, Reporting & 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 Consolidated 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 Consolidated Financial Statements.

Average Effective Interest Rates

The following table presents average effective annual interest rates by currencies and the Bank's principal categories of interest bearing assets and liabilities as of 31 December 2003, 2004 and 2005 and as of 30 June 2006.

	As of 31 December						As of 30 June	
	2003		2004		2005		2006	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
	(Percentage)							
Assets								
Amounts due from credit institutions	—	4%	10%	2%	8%	2%	9%	4%
Investment securities:								
— held-to-maturity	42%	—	—	—	14%	—	14%	—
— available-for-sale	—	—	16%	—	13%	—	14%	—
Loans to customers	24%	21%	24%	20%	21%	15%	19%	18%
Liabilities								
Amounts owed to credit institutions	—	5%	—	5%	10%	7%	6%	9%
Amounts owed to customers	5%	9%	5%	7%	10%	8%	8%	9%

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 June
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			(Unaudited)
Three months or less	97,098	209,196	245,197	369,483
More than three months, but less than or equal to one year	25,827	54,533	39,449	81,504
More than one year	50,885	36,734	65,322	133,543
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**173,810**	**300,463**	**349,968**	**584,530**
Other liabilities (maturity undefined)	**1,671**	**7,249**	**19,140**	**24,162**
Total liabilities	**175,481**	**307,712**	**369,108**	**608,692**

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 June
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			(Unaudited)
Short term(1)	122,925	263,729	284,646	450,987
Long term(2)	50,885	36,734	65,322	133,543
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**173,810**	**300,463**	**349,968**	**584,530**

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 June
	2003	2004	2005	2006
	(Percentage)			(Unaudited)
Short term[(1)]	71	88	81	77
Long term[(2)]	29	12	19	23
Total loans and advances from banks, borrowed securities, customer accounts, debt securities issued and other liabilities	**100**	**100**	**100**	**100**

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 June
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			(Unaudited)
Loans and advances from banks:				
Lari	43	71	5,023	15,537
Foreign currency	50,194	48,263	73,850	122,771
Total loans and advances from banks	**50,237**	**48,334**	**78,873**	**138,308**
Customer accounts:				
Lari	19,280	59,947	76,495	149,389
Foreign currency	104,293	192,182	193,457	295,500
Total customer accounts	**123,573**	**252,129**	**269,952**	**444,889**
Debt securities issued:				
Lari	—	—	1,143	1,333
Foreign currency	—	—	—	—
Total debt securities issued	**—**	**—**	**1,143**	**1,333**
Other liabilities, provisions and income tax liability:				
Lari	1,424	5,935	14,227	13,907
Foreign currency	247	1,314	4,913	10,255
Total other liabilities, provisions and income tax liability	**1,671**	**7,249**	**19,140**	**24,162**
Total liabilities	**175,481**	**307,712**	**369,108**	**608,692**

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 June
	2003	2004	2005	2006
	(Percentage)			(Unaudited)
Lari	12	21	26	30
Foreign currency	88	79	74	70
Total liabilities	**100**	**100**	**100**	**100**

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 2005		As of 30 June 2006	
	(Amounts in thousands Lari)	Percentage of Total Retail and Private Banking Loans (%)	(Amounts in thousands Lari)	Percentage of Total Retail and Private Banking Loans (%)
			(Unaudited)	
GEL	47,448	36.3	73,619	38.1
US$	81,642	62.4	117,620	60.9
Euros	1,669	1.3	2,010	1
GBP	—	—	2	0.001
Total loans to retail banking and private banking customers	**130,759**	**100**	**193,251**	**100**

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 June
	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	854
Corporate bonds	—	—	—	1,229
Available-for-sale securities	**1,742**	**19,628**	**8,327**	**2,083**

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 June	
	2003		2004		2005		2006	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
							(Unaudited)	
Ministry of Finance Treasury Bills	43.82%	2004	15.75%	2005	12.85%	2006	—	—
Corporate bonds	—	—	—	—	14.00%	2006	14.00%	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 June	
	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	200	228
Held-to-maturity securities	**—**	**—**	**—**	**—**	**2,280**	**2,395**	**200**	**228**

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 June	
	2003		2004		2005		2006	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
							(Unaudited)	
Ministry of Finance Treasury Bills	—	—	—	—	13.60%	2006	—	—
Corporate bonds	—	—	—	—	14.00%	2006	14.00	2006

Loan Portfolio

As of 30 June 2006, the Bank had outstanding a total of GEL 447.9 million in loans to customers (net of allowance for impairment losses). As of 31 December 2005, loans to customers (net of allowance for impairment losses) amounted to GEL 297.4 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 June
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			(Unaudited)
Individuals	61,284	73,084	114,427	167,219
Private entities	83,009	109,761	174,492	281,851
State entities	6,685	6,051	25,397	22,936
State budget or local authorities	64	53	—	—
Total loans to customers	**151,042**	**188,949**	**314,316**	**472,006**

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 June
	2003	2004	2005	2006
	(Amounts in thousands of Lari)			(Unaudited)
Loans secured by corporate guarantees	4,791	3,469	3,223	15,474
Loans collateralised by pledge of shares of other companies	2,586	1,409	1,586	799
Loans collateralised by pledge of equipment	3,112	6,841	4,235	4,952
Loans collateralised by pledge of inventory	1,881	780	889	525
Loans collateralised by Bank of Georgia's promissory notes	—	—	—	148
Other collateralised loans(1)	125,355	162,201	289,016	422,024
Unsecured loans	13,318	14,249	15,367	28,084
Total loans to customers	**151,042**	**188,949**	**314,316**	**472,006**

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 June	
	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	86,487	46	144,489	46	198,644	42
Individuals	61,284	41	73,084	39	114,427	36	167,219	35
Construction	11,512	8	14,621	8	12,668	4	36,626	8
Transport and communication	3,312	2	5,817	3	13,646	4	14,007	3
Mining	3,163	2	876	—	3,667	1	7,880	2
Agriculture	189	—	1,721	1	1,055	—	2,863	1
Energy	868	1	89	—	208	—	2,526	1
Other(1)	2,768	2	6,254	3	24,156	8	42,241	9
Total loans to customers	**151,042**	**100**	**188,949**	**100**	**314,316**	**100**	**472,006**	**100**

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 June	
	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	20,155	12	85,189	29	121,899	27
Other currencies (freely convertible)	119,648	84	149,713	88	212,187	71	325,984	73
Other currencies (non convertible)	—	—	—	—	—	—	—	—
Total loans to customers	**141,780**	**100**	**169,868**	**100**	**297,376**	**100**	**447,883**	**100**

Loans by Maturity

As of 30 June 2006, loans due within one year or earlier represented 53% of the Bank's customer loan portfolio (net of allowance for impairment losses) compared with 49% 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 June	
	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	21,269	13	39,093	13	47,027	11
One to three months	10,232	7	13,282	8	29,968	10	55,499	12
Three months to one year	32,271	23	31,799	19	75,655	25	132,871	30
More than one year	74,967	53	102,032	60	147,924	50	197,748	44
Overdue	2,040	1	1,486	1	4,736	2	14,738	3
Total loans to customers	**141,780**	**100**	**169,868**	**100**	**297,376**	**100**	**447,883**	**100**

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 83%, 79%, 79% and 82% of the Bank's total loan portfolio as of 31 December 2003, 2004, 2005 and 30 June 2006, respectively.

Loans by Amount and Number of Borrowers

As of 30 June 2006, the exposure of the Bank to its ten largest third-party borrowers amounted to GEL 66.8 million, representing 14% of total loans to customers (in each case gross of allowance for impairment losses) as compared with GEL 51.2 million (16%), GEL 23.6 million (13%) and GEL 38.5 million (26%) 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 June 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	8,930	Construction and real estate
2	8,264	Other sectors
3	7,103	Other sectors
4	7,092	Energy
5	6,806	Construction and real estate
6	6,731	Retail and wholesale trade
7	6,260	Energy
8	5,676	Retail and wholesale trade
9	5,414	Energy
10	4,516	Construction and real estate
Total	**66,792**	

PRINCIPAL SUBSIDIARIES

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

Name	Registered office	Activity	Proportion of capital held (%)[5]	Amount of issued capital
Consolidated Subsidiaries — Georgia				
JSC Galt & Taggart Securities	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Brokerage and asset management	100	GEL 6,945,627
JSC Insurance Company BCI	50 Chavchavadze Avenue Tbilisi, Georgia, 0179	Insurance	100	GEL 1,550,000
JSC EuroPace	Temka, Trade Center, Between blocks IX-X Tbilisi, Georgia, 0178	Insurance	100[1]	GEL 500,000
Georgian Leasing Company LLC	70 Kostava Avenue Tbilisi, Georgia, 0171	Leasing	100	GEL 580,000
JSC Galt & Taggart Capital	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Investment company	100[2]	GEL 350,000
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	GEL 200,000
ICT Delameni, LLC	153 Aghmashenebeli Avenue Tbilisi, Georgia	Registrar	100	GEL 15,070
Company-Center, LLC	24 Mosashvili Street Tbilisi, Georgia	Registrar	100	GEL 2,000
Reestr-Center, LLC	5/7 H. Abashidze Street Batumi, Georgia	Registrar	100	GEL 19,230
JSC SB Real Estate	4 Freedom Square, Tbilisi, Georgia, 0105	Real estate development and management	100[3]	GEL 340,000
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[4]	GEL 438,238
Minority Shareholding Interests — Georgia				
JSC UFC	154 Aghmashenebeli Avenue Tbilisi, Georgia, 0112	Card processing	44.96	GEL 2,313,800[6]
JSC CreditInfo	16 Janashia Street Apartment 2 Tbilisi, Georgia, 0179	Credit bureau	15.3	GEL 343,940[6]
Georgian Stock Exchange	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Stock exchange	7.69	GEL 30,000[6]
Georgian Central Securities Depository	74a Chavchavadze Avenue Tbilisi, Georgia, 0162	Securities depository	0.3	GEL 102,200[6]
Tbilisi Inter-Bank Foreign Exchange	4 Galaktioni Street Tbilisi, Georgia, 0105	Foreign currency exchange	16.67	GEL 480,000[6]
Minority Shareholding Interests — International				
Ukrainian bank	Confidential	Banking	2.82	Confidential[6]

Notes:
(1) 80% 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.
(2) 81.51% of Galt & Taggart Capital is owned by Bank of Georgia indirectly via Galt and Taggart Securities.
(3) 100% of SB Real Estate is owned by Bank of Georgia indirectly via Galt & Taggart Capital.
(4) 100% of Galt and Taggart Holdings Limited is owned by Bank of Georgia indirectly via BCI.
(5) Percentages of capital held derived from management data.
(6) Derived from management data.

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 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 Law on Commercial Banks, 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 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% 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% of the shares of Bank of Georgia deems such meeting necessary. Shareholders who individually or together hold at least 5% 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% 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% 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. See "Description of Share Capital and Certain Requirements 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 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% 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	35	Chairman of the Supervisory Board	2006	2010(1)
Nicholas Enukidze(2)	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(2)	57	Supervisory Board Member	2006	2010

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

(2) Mr. Enukidze and Mr. Hirst were elected to the Supervisory Board by the EGM on 6 November 2006. On 7 November 2006, the Supervisory Board elected Mr. Enukidze as Vice-Chairman of the Supervisory Board and elected Mr. Hirst to the Compensation Committee as a replacement of Mr. Gelovani.

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 GSE. 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 British 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. Allan 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 fulfill 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 centers, making appropriate decisions;

- ensuring the fulfillment 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% 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% 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 led 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 Service Contract
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 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.

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 common 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 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.

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 & Analysis	2005
Macca Ekizashvili	32	Head of Investor Relations	2004
Thea Jokhadze	30	Head of Funding	2005
Ekatering Kvantrishvili	26	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

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

Ekaterina Kvantrishvili. Ms. 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. 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. Mr. 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. 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. Mr. 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 the 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.

Audit Committee

According to the Law on Commercial Banks, 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 internal audit service with other structural units of Bank of Georgia;
- Make recommendations to the Supervisory Board on the employment/dismissal of the head and deputy head of Bank of Georgia's internal audit service, as well as on 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	Position	Year Appointed	Expiration of Term
Irakli Rekhviashvili	31	Chairman	2004	2008
Victoria Shtorm	34	Member	2006	2010
Dimitri Kemoklidze	36	Member	2006	2010

Irakli Rekhviashvili. Mr. 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 World Bank Group in Washington D.C., where he worked as a Consultant focusing on Europe and Central Asia Region. Mr. Rekhviashvili holds the MPA degree in Development Studies from Princeton University's Woodrow Wilson School of Public and International Affairs.

Victoria Shtorm. Ms. 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 for 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 an LLM degree from Institute of International Relations in Kyiv, Ukraine.

Dimitri Kemoklidze. Mr. Kemoklidze has served as Restructuring and Development Agency Director at the Georgian 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 1.8 million as of 30 June 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% and 25% of the cash bonus of Mr. Gurgenidze and Mr. Gilauri, respectively, were deferred for 12 months and 25% 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

(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.

Bank of Georgia does not currently have a Nomination Committee. 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 on 7 November 2006.

Loans to Management

As of 31 December 2005, 2004 and 2003 and 30 June 2006, total loans outstanding, net, issued to management members of Bank of Georgia totalled GEL 1.1 million, GEL 637,000, GEL 680,000 and GEL 305,000, respectively.

Interests of Management

The following table shows the beneficial ownership of Bank of Georgia's shares, excluding shares to be awarded pursuant to the EECP, 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
Lado Gurgenidze	Chairman of the Supervisory Board	502,355
Sulkhan Gvalia	Deputy CEO	224,000
Ramaz Kukuladze	Deputy CEO	22,122
Giorgi Paresishvili	Head of Asset & Wealth Management	1,133
Eka Kvantrishvili	Head of Retail Banking	977
Macca Ekizashvili	Head of Investor Relations	1,146
Thea Jokhadze	Head of Funding	227
Lekso Liparteliani	Co-Head of Corporate & Investment Banking	1,133
Vasil Khodeli	Co-Head of Corporate & Investment Banking	991

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 the 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 June 2006, the Bank had a total of 878, 968, 1,174 and 1,594 employees, respectively.

Annual employee turnover of the Bank on average did not exceed 8% 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% on the gross salary of employees as well as on certain type of business income of natural persons. There are no other mandatory contributions.

As of 30 June 2006, approximately 115 employees, excluding members of the Management Board, held an aggregate of approximately 144,000 shares in Bank of Georgia, approximately 1% the Bank's total issued share capital.

Every employee contributes 1% 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%.

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 will subscribe, to 850,000 Shares in the form of restricted GDRs of Bank of Georgia on or around the Closing Date. The trust is further expected to subscribe to an additional 650,000 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 restricted GDRs will be issued pursuant to a Supplemental Restricted Deposit Agreement to be entered into between the Bank and The Bank of New York, as depositary. Shares issued pursuant to the EECP will be held in the form of restricted GDRs. 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.

Other than as described in this Prospectus, the Bank has not granted any other rights, including but not limited to rights to subscribe for shares, warrants, option rights, entitlements to any person or entity.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the Shares as of the date of this Prospectus and after the Offering, assuming that the Over-Allotment Option is exercised in full but not reflecting shares issued in connection with the EECP:

Owner	Shares Owned Before the Offering		Number of Shares Being Offered in the Offering	Shares Owned After the Offering	
	Number	%		Number	%
Bank Austria Creditanstalt[(1)]	4,166,242	24.7%	—	4,166,242	17.1
Firebird Avrora Fund	1,463,682	8.7%	—	1,463,682	6.0
Firebird Republics Fund	1,430,145	8.5%	—	1,430,145	5.9
East Capital Financial Institutions II AB	1,364,806	8.1%	—	1,364,806	5.6
Victor Gelovani	1,300,000	7.7%	1,300,000	—	0.0
Galt & Taggart Securities[(2)]	881,431	5.2%	—	881,431	3.6
East Capital Bering Russia Fund	771,172	4.6%	—	771,172	3.2
Firebird Global Master Fund	668,795	4.0%	—	668,795	2.7
East Capital Bering Ukraine Fund	570,000	3.4%	—	570,000	2.3
Lado Gurgenidze	502,355	3.0%	140,000	362,355	1.5
Bryum Limited	396,583	2.3%	—	396,583	1.6
SEB Vilniaus Bankas[(3)]	282,661	1.7%	—	282,661	1.2
Sulkhan Gvalia	224,000	1.3%	—	224,000	1.0
Subtotal	14,219,232	84.3%		12,779,232	52.5
Free Float	2,894,292	15.7%		11,774,498	48.4
Total Shares outstanding	16,890,413	100.0%		24,330,620	100.0%

Notes:

(1) Since September 2005 until 31 October 2006, Bank Austria Creditanstalt accumulated over 4.2 million ordinary shares of the Bank and issued call warrants against them. 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 the 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. The Bank 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 included in this Prospectus and Note 25 to the Interim Financial Statements.

	2003				2004				2005			
	Share-holders	Entities under common control	Associates	Top management personnel	Share-holders	Entities under common control	Associates	Top management personnel	Share-holders	Entities under common control	Associates	Top management personnel
	(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 deposits	—	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

	Six months ended 30 June 2006			
	Shareholders	Entities under common control	Associates	Top management personnel
		(Amounts in thousands of Lari)		
	—	16,733	3,272	1,143
	—	17,038	15,689	2,012
	—	(29,829)	(14,797)	(2,840)
Loans outstanding as of 30 June, gross	**—**	**3,942**	**4,164**	**315**
Less: Allowance for impairment as of end of period	—	(37)	(137)	(10)
Loans outstanding as of 30 June, net		**3,905**	**4,027**	**305**
	—	252	1,751	113
	—	66,587	21,373	25,906
	—	62,344	20,758	23,683
Deposits as of end of period	**—**	**4,495**	**2,366**	**2,336**
Interest income on loans	—	3,686	628	103
Impairment of loans	—	(842)	43	(17)
Interest expense on deposits	—	—	65	54
Commitments and guarantees received	—	12	—	—
Fee and commission income	—	148	56	23

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 was 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 the practices in place when 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 US$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 Law On Activities of the Commercial Banks (the "Banking Law"), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential 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% to 10% of total assets. In January 1997 the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5,000,000 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%, 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 million in total.

From 1 January 1999, new accounting rules consistent with international accounting standards were introduced and minimum capital adequacy requirements were further strengthened from 10% of total assets to

12% of risk based assets of tier one capital and 15% 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 18 as of 31 October 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% and comprised GEL 2.5 billion as of 31 December 2005, while aggregate loans granted by Georgian banks grew by 85% 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 as of 31 December 2005 (representing a 28% increase since the beginning of the year), while aggregate profits of Georgian banks was GEL 61 million for 2005 (representing an increase of 125% 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 inter-bank loans). Based on information published by the NBG, in 2005, loans to private sector borrowers represented 67% 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 as of 31 December 2005, representing an increase of 83% year-on-year, while loans denominated in GEL increased by 200% and loans denominated in foreign currency by 67% over the same period. Based on information published by the IMF, during 2005, the average loan size increased by GEL 1,500 to GEL 5,900, 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% 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%, of which there was a 45% 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% in 2004 and 19.5% in 2005. Average interest rates on loans denominated in GEL decreased from 20% to 17.4% in 2004 and 15.9% by the end of 2005. Average interest rates on foreign currency deposits decreased from 9% 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 US$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 average 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% 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% 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% 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% 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% 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% of the gross assets of the Georgian banking sector had foreign capital investment, which accounted for more than 50% of the capital in each of these banks. Major foreign investors in the Georgian banking sector include the European Bank of Reconstruction and Development (EBRD), International Financial Corporation (IFC), France's Société Generale, 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 of 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 June 2006 the aggregate assets of all banks in Georgia were approximately GEL 3.5 billion, with the five largest banks accounting for approximately 81% 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 million in 2004 and GEL 126 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, owing to increased geopolitical 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 fails 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. 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 inter-bank 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 Georgian Constitution, 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 any "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 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 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; (x) activities incidental to each of the above types of services.

Under the Banking Law, 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 and Decree No. 253 of 15 September 2006.

Mandatory Financial Ratio	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%.	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%.	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% 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% of Regulatory Capital.	
Lending ratios		
Lending ratio individual borrower	No credit to an outsider to exceed 15% 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% of Regulatory Capital.	
Large loans to customers	Total large loans to customers and other liabilities not to exceed 200% 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% of Regulatory Capital.	This ratio intends to limit the concentration of large borrowings in the bank's loan portfolio and bank's exposure to single or related large borrowers.
Unsecured loans		
Uncollateralised loans	Not to exceed more than 25% of the total loan portfolio of a bank.	This ratio is intended to limit the bank's credit exposure to unsecured loans.

Mandatory Financial Ratio	NBG Maximum/Minimum	Description
Liquidity ratios		
Average liquid assets: liabilities	Average liquid assets during the month not less than 30% 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% 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% of the difference between total assets and liabilities of the bank.	
Open exchange position		
Balance sheet open exchange position	Not to exceed 20% 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% 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 31 October 2006.

Mandatory Financial Ratio	NBG Financial Ratio Requirement	As of 31 December			As of 31 October
		2003	2004	2005	2006
Tier I capital adequacy ratio	≥ 8%	12.1%	15.0%	11.1%	7.8%
Total capital adequacy ratio	≥ 12%	16.0%	8.9%	13.0%	12.5%
Related party lending single insider ratio	≤ 5%	1.1%	2.6%	4.1%	3.3%
Related party lending all insiders ratio	≤ 25%	6.7%	5.4%	13.7%	10.3%
Lending ratio individual borrower	≤ 15%	17.3%	19.7%	13.4%	8.3%
Lending ratio group of related borrowers	≤ 25%	N/A	20.7%	7.8%	9.5%
Large loans to customers	≤ 200%	N/A	198.6%	64.3%	63.4%
Uncollateralised loans	≤ 25%	N/A	7.9%	4.9%	7.2%
Average liquid assets: liabilities	≥ 30%	30.0%	43.0%	21.8%	30.8%
Investments: equity	≤ 50%	1.9%	31.7%	10.3%	19.5%
Investments plus fixed assets: equity	≤ 70%	N/A	77.3%	48.5%	51.8%
Balance sheet open exchange position	≤ 20%	N/A	N/A	N/A	15.1%
Cumulative open exchange position	≤ 20%	5.4%	2.11%	4.9%	10.0%

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 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, except for the Tier I capital adequacy ratio, 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". The Bank of Georgia has, however, received a waiver from the NBG until February 2007 with respect to the Tier I capital adequacy ratio.

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 of September 2006, commercial banks are required to maintain mandatory minimum reserves at the NBG amounting to 13% of foreign currency funds and 4% 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%.

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%.

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%.

Doubtful Loans. Where *r*epayment 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%.

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%.

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;
- the chief account 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 (10% 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 (10% or more as defined above) 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. 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 until 31 December 2006, GEL 9.2 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 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 in 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 Law on Activities of Commercial Banks. 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 2006 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 vital to the further development of the banking system in Georgia. The key targets for 2006 are:

- the development of a system of mandatory deposit insurance to comply with EU directive 94/19/EC. 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 NBG has undertaken to achieve this by the end of 2006;
- the creation of a credit history agency in 2006;
- the amendment of the Banking Law to provide that (i) shareholders in banks will have to be identified and meet certain compliance criteria; and (ii) significant shareholders in Georgian banks, (holding 10% or more) will need to meet more stringent compliance criteria than are in place at present;
- reduction of the number of liquidity ratios applicable to banks and gradual reduction of the average liquidity ratio; and
- application of prudential norms and mandatory financial ratios in a manner consistent with Basel Standards.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF GEORGIAN LEGISLATION

Set forth below is a description of the Bank of Georgia's Shares, the material provisions of the Charter in effect on the date of this Prospectus and certain requirements of Georgian legislation, including a description of certain rights of the holders of the Shares and related provisions of the Charter and of the Georgian Law on the Activities of Entrepreneurs (the "Law on Entrepreneurs") and the Georgian Law on Commercial Banks. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and the Law on Entrepreneurs.

General

Bank of Georgia was incorporated as Joint Stock Company Bank of Georgia, a joint stock company, under the laws of Georgia. Bank of Georgia was registered under number 06/5-07 by Krtsanisi District Court on 29 November 1995. Prior to Bank of Georgia's incorporation as a joint stock company, Bank of Georgia was established through the privatisation of the state bank "Binsotsbank" and was registered as a commercial bank under the registration number 86 on 15 December 1994. The address of Bank of Georgia is 3 Pushkin Street, Tbilisi, Georgia, 0105. Bank of Georgia is registered in the Tax Inspection of Tbilisi under the number 204378869, series no. 217-major.

Objects

Pursuant to Article 2 of the Charter, the objects of Bank of Georgia are:

- to receive interest bearing and non-interest bearing deposits (demand, time and other) and other refundable payment instruments;
- to extend loans, including, without limitation, consumer loans, mortgage loans, unsecured loans and other types of loans and engage in factoring operations with and without the right of recourse, trade finance, the issuance of guarantees, letters of credit and acceptance bills, including forfeits;
- to purchase and sell of monetary instruments for Bank of Georgia's own and client accounts (including, without limitation, cheques, promissory notes and depositary certificates), securities, futures options and swaps with debt instruments and/or interest rates, currencies interest rate instruments, debt instruments, foreign exchange instruments, precious metals and gems;
- to carry out cash and non-cash transactions and provide cash collection services;
- to issue and circulate payment tools (payment notes, cheques and bills of exchange);
- to provide intermediary services on financial markets;
- to carry out operations, attract and place funds on behalf of clients (trust operations);
- to safekeep and register of valuables, including securities;
- to provide credit-information services;
- to provide services related to any of the activities provided above;
- to carry out any other type of banking activity which is permissible under the laws of Georgia.

Share Capital

The shares of Bank of Georgia have been issued under the laws of Georgia. As of the date of this Prospectus, Bank of Georgia's authorised share capital consists of 25,335,619 ordinary shares with a nominal value of GEL 1.00 per share. Bank of Georgia's issued share capital as of the date of this Prospectus consists of 16,890,413 fully-paid ordinary registered shares with a nominal value of GEL 1.00 per share, all of which are fully paid.

Changes in Share Capital

Upon incorporation as a commercial bank, Bank of Georgia's authorised and issued share capital amounted to the US$ equivalent of 1,600,000, consisting of 1,600,000 shares with a nominal value of US$1.00 equivalent, all of which were fully paid.

From 1998 to 2004, Bank of Georgia's authorised share capital amounted to GEL 13,000,000 consisting of 13,000,000 shares with a nominal value of GEL 1.00 each. Following the resolution of the GMS held on 2 August 2004, the Charter was amended to reflect the increase of the authorised share capital of Bank of Georgia to GEL 14,783,409 consisting of 14,783,409 shares with a nominal value of GEL 1.00 each. On

22 December 2005, the Charter was amended by the GMS, to reflect an increase in the authorised capital of Bank of Georgia to GEL 19,783,409, consisting of 19,783,409 shares with a nominal value of GEL 1.00 each. On 6 November 2006, the GMS increased the authorised capital amount to GEL 25,335,619 consisting of 25,335,619 ordinary shares with a nominal value of GEL 1.00 each.

Except as disclosed in this section, there has been no change in the amount of authorised share capital of Bank of Georgia in the two years preceding the date of this Prospectus.

Form and Transfer of Shares

The shares of Bank of Georgia are in registered form. They are available in the form of an entry in the share register of Bank of Georgia without the issuance of a share certificate.

Subject to Georgian law and the Charter, shares can only be transferred by the registration of the transfer in the share registry kept by the independent registrar of Bank of Georgia's shares, or in the registry kept by the brokerage company to whom the shareholders have transferred their shares into nominal ownership, all in accordance with the provisions of Georgian law and the Charter.

Issue of Shares and Pre-emption Rights

Shares or rights or options thereto may be authorised or issued pursuant to a resolution adopted by the GMS. The resolution to increase the authorised but unissued and the issued share capital must specify the nominal value of shares, the premium, if any, the type of shares to be issued and the period when the issue shall take place. See "— Capital Increase and Decrease".

Under Georgian law, shares may not be issued below their nominal value.

Bank of Georgia's authorised share capital is currently made up entirely of ordinary shares. However, the Charter provides that Bank of Georgia has the right to issue preferred shares which entitle their owners to a specific rate of dividend. Under the Law on Entrepreneurs, the amount and rules for preferred dividend payout can be defined under the Charter and/or any share issue prospectus published in relation to such shares. The Law on Entrepreneurs further states 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. Bank of Georgia's Charter states that the amount and rules for preferred dividend payout will be defined in a relevant share issue prospectus (if any) and also confirms that preferred shareholders will not be entitled to voting rights.

Under Georgian law, shareholders have non-transferable pre-emption rights to subscribe for shares upon the issue of new shares in proportion to the aggregate amount of shares they hold. According to the Charter, a pre-emption right does not exist with respect to the shares issued out of the part of authorised but unissued capital designated by the GMS for employee share ownership purposes. Georgian law is not clear as to whether pre-emption rights apply to the issuance of shares under contingent capital but it is likely that they do not. Pre-emption rights may be restricted or excluded by resolution of the GMS, approved by a three-quarter majority of those present and voting at the GMS. Georgian law does not regulate the mechanism for the issue of shares subject to pre-emption rights and the period during which these rights can be exercised.

The authority to issue shares up to a total number of 8,445,206 authorised but unissued shares of Bank of Georgia and to grant rights to subscribe for shares, has, as of the date of this Prospectus, been delegated to the Management Board, with Supervisory Board approval.

Dividends

The distribution of profits and payment of a dividend by Bank of Georgia are subject to compliance with the Law on Entrepreneurs and the Charter. Dividends may in principle only be paid out after adoption of the annual accounts, showing that the distribution of dividends is permissible, and out of net profits of Bank of Georgia. The Management Board prepares a proposal on the distribution of dividends which must be approved by the Supervisory Board. If the Supervisory Board and the Management Board cannot agree on the proposal, both proposals shall be submitted to the GMS for approval. See "— Profit and Loss; Distributions".

Repurchase by the Issuer of Its Own Shares

The Management Board may acquire up to 10% of the shares in Bank of Georgia's issued share capital for an indefinite period of time on the stock exchange ("Treasury Shares"). The acquisition will be subject to the approval of the Supervisory Board. Treasury Shares are non-voting shares, do not attract dividends and are not accounted for in a liquidation or enforcement proceedings in respect of other rights in relation to the shares.

In cases where amendments made to the Charter materially infringe a shareholder's rights and in certain circumstances when a shareholder voted against a resolution passed by the GMS, that shareholder may request that Bank of Georgia buy out his/her shares. The shares are bought out at a fair price determined by the Supervisory Board. The shareholder may appeal in court against the price determined by the Supervisory Board.

Capital Increase and Reduction

The issued share capital in a Georgian joint stock company may only be increased by a resolution of the GMS. The resolution on the increase of issued share capital must specify the nominal value of shares, the premium, if any, the type of shares to be issued and the period the issue shall take place.

The GMS is also permitted to increase the authorised but unissued share capital. In this case, the GMS authorises the Management Board to issue new share capital with the approval of the Supervisory Board. Such resolution of the GMS must specify the number of shares that may be issued and the period, not exceeding five years, during which the authorisation will be effective. If and when so decided by the GMS, part or all of the authorised but unissued share capital may be allotted for an employee share ownership plan subject to approval by the Supervisory Board. In such case, the issuance of new shares for any other purpose out of the (part of) authorised but unissued share capital so designated for the employee share ownership plan is forbidden.

A Company can also issue shares as contingent capital in circumstances when shares are issued to employees in cases of conversion of other types of securities into shares and in cases of mergers of companies. A resolution by the GMS approving an increase of contingent capital must specify the pre-conditions and period for the issue of new shares. The pre-conditions to the issue of contingent capital must be conditions which are not within the control of the Supervisory Board and the Management Board.

In cases of authorised but unissued share capital increases, the number of authorised but unissued shares cannot exceed 50% of the number of shares already issued. In the case of contingent capital increases, the number of shares issued cannot exceed the number of convertible securities (where the contingent capital increase is for the purpose of conversion of other types of securities into shares) or 100% of the number of existing shares (in other cases).

Issued share capital can also be increased by means of the conversion of reserve funds into issued share capital. In such a case, it is forbidden to cancel the shareholders' preemptive rights to subscribe for any newly issued shares as a result of this conversion. See "— Issue of Shares and Pre-emptive Rights".

The GMS may resolve to reduce the issued share capital by cancellation of shares and the return contributions to its shareholders. However, the issued share capital cannot be reduced to less than the minimum amount of issued fully paid-up share capital required for Georgian joint stock companies under the Law of Entrepreneurs, which is GEL 15,000.

In order to reduce its issued share capital, a Georgian company is required to amend its charter. After amendments are made to the charter, the reduction of the issued share capital must be registered at the Entrepreneurial Registry. Shareholders are not entitled to a return of their contributions until such registration has been made. If no such registration is made, a creditor may claim and recover any contributions returned to shareholders without registration. It is prohibited to return contributions to shareholders until 12 months after the registration of the reduction of the share capital in the Entrepreneurial Registry, unless the shareholders of Bank of Georgia agree otherwise.

Liability of Shareholders

A shareholder is required to pay for a share issued to that shareholder at its par value and if the share is subscribed for at a higher value, the difference between the par value and such higher value.

Voting Rights

Each share (except preferred shares and Treasury shares) confers the right to cast one vote at the GMS. There are no restrictions, either under Georgian law or in the Charter, on the right of non-residents of Georgia or foreign owners to hold shares in a Georgian joint stock company or exercise the voting rights attaching to those shares. In order to be validly passed, resolutions must be adopted by at least a simple majority of the votes cast, unless Georgian law or the Charter requires a greater majority.

Financial Statements and Auditor

The financial year of Bank of Georgia coincides with the calendar year. The Management Board must prepare Bank of Georgia's annual accounts and make the accounts for inspection by the shareholders. The GMS adopts the annual accounts.

The GMS elects the external auditor annually. The auditor is required to be economically and legally independent from Bank of Georgia. The obligatory annual audit review conducted by the selected auditor shall includes accounting procedures, balance sheet and business practice of Bank of Georgia. Immediately upon the completion of the annual audit, the full report is presented to the NBG. The Bank of Georgia's consolidated financial statements and auditor's report are published in accordance with the rules set by the NBG.

Profit and Loss; Distributions

Distributions of profits may only be made after adoption of the annual accounts showing that the distribution is permissible. The Law on Entrepreneurs, the regulations of the National Securities Commission of Georgia and the Charter set forth the procedure for determining the dividends Bank of Georgia distributes to its shareholders. Dividends can only be paid after the GMS has adopted the annual accounts, which show that the distribution of dividends is permissible out of the net profits of Bank of Georgia. According to the Charter, within one month from the completion of the annual audit, but in any case, at least one month prior to the annual GMS, the Management Board is required to prepare a proposal on the distribution of profit and submit this proposal to the Supervisory Board for approval. If the Management Board and the Supervisory Board fail to reach an agreement on the distribution of profits, both the Management Board and the Supervisory Board will submit separate proposals to the GMS. Distribution of profits is resolved by the GMS. The payment of dividends takes place not more than two months after the date of the GMS which resolved on the distribution of profits.

There is no prescribed amount of dividend for holders of ordinary shares of Bank of Georgia. See "—Dividends".

Merger, Demerger, Amendment of Articles, Dissolution

When a proposal to amend the Charter of Bank of Georgia is made at the GMS, the proposal must be mentioned in the notification for convening the GMS.

According to the Charter, a resolution by the GMS to (i) amend the Charter and/or (ii) elect Supervisory Board members nominated by shareholders holding 20% or more of Bank of Georgia's shares is adopted with a majority of more than two thirds of the votes cast at the meeting; a resolution to (i) merge, demerge or divide Bank of Georgia and/or transform Bank of Georgia into another legal entity (ii) fully or partially cancel pre-emptive rights at the time of an increase in authorised share capital (iii) approve or reject the proposal of the Supervisory Board or the Management Board regarding distribution of dividends and/or (iv) dismiss members of the Supervisory Board can only be adopted with a majority of 75% of the votes cast at a meeting. A resolution to merge Bank of Georgia must be adopted by votes representing more than 50% of the total issued capital. Under current Georgian law banks must be joint stock companies. Unless the law is changed, Bank of Georgia cannot be transformed into another legal entity.

Liquidation

A dissolution of Bank of Georgia shall be conducted in accordance with the rules set by the NBG and applicable laws. If Bank of Georgia is liquidated, the assets remaining after the payment of the claims of the creditors will be first distributed to the holders of preferred shares, if any, and then to holders of the ordinary shares in proportion to the aggregate nominal amount of their ordinary shares.

Corporate Governance

Georgia has not adopted a code of corporate governance and therefore Bank of Georgia is not subject to the requirements of any national corporate governance rules. Bank of Georgia is not subject to, and will not comply with, the UK combined code on corporate governance issued by the Financial Reporting Council in July 2003. Bank of Georgia, has however, recently appointed one independent non-executive director.

Interested Party and Major Transactions

According to NBG Order No. 116, dated 4 May 2001, Bank of Georgia is not authorised to conduct any operation with any of its administrators (the definition of “administrator” includes members of the Supervisory Board, the Management Board and Audit Committee, as well as any person, which independently or with any other person(s) is authorised to incur obligations on Bank of Georgia’s behalf), affiliated company and related persons, unless such operation is approved by the Supervisory Board. No administrator or person related to Bank of Georgia or administrator is permitted to participate in any discussion related to such operation if he/she anticipates any direct or indirect gain from such transaction. In addition, such administrator or person must not influence, in any manner, the decisions of the Supervisory Board related to such operations. A Supervisory Board member who has any interest in a given operation, must present detailed information about his/her interest whilst submitting such issue for Supervisory Board review. Such member of the Supervisory Board is not permitted to participate in the review and decision-making on such issue and his/her participation will not count in determining the quorum of the meeting.

Certain major transactions require the approval of the GMS or Supervisory Board.

The approval of the GMS is required for resolutions on the following issues:

- full or partial cancellation of the pre-emptive rights pursuant to an increase of authorised share capital; and
- decisions relating to the 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% of the equity value of Bank of Georgia.

The approval of the Supervisory Board is required for resolutions on the following issues:

- acquisition and disposal of Bank of Georgia’s stake in other companies if the amount of such stake/ shares exceeds 50% of the total equity of such company or the volume of the transaction exceeds two and a half percent (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 ownership rights, if such transaction falls outside the scope of routine economic activity of Bank of Georgia and the volume of such transaction exceeds two and a half percent (2.5%) of Bank of Georgia’s equity value as of the end of the previous calendar month;
- investments, partial or total amount of which exceeds two and a half percent (2.5%) of Bank of Georgia’s equity value as of the end of the previous calendar month;
- borrowing funds in excess of two and a half percent (2.5%) of Bank of Georgia’s equity value as of the end of the previous calendar month;
- securing loans, if they fall outside the scope of routine economic activity;
- determination of the remuneration and/or additional benefits for Bank of Georgia’s top management (Chief Executive Officer and other Management Board members, and any other top managers so selected by the Supervisory Board);
- approval of agreement(s) or contract(s) as a result of which non-recurring expense or several-tranche expenditure of Bank of Georgia exceeds one percent (1%) of Bank of Georgia’s equity value as of the end of the previous calendar month.

For a more detailed description, see “Management and Employees — General Meeting” and “Management and Employees — Supervisory Board”.

Georgian Squeeze-Out Proceedings

According to article 533 of the Law on Entrepreneurs, a shareholder who holds more than 95% of a company’s voting shares has the right to buy out the other shareholders at a “fair price”. According to the Law on Entrepreneurs, the “fair price” is determined by an independent expert (meaning an auditor or audit firm which is authorised to audit company accounts), or brokerage company, unless the procedure for determining the price is provided for in the Charter of the company. The fair price may not be less than the highest price paid by the shareholder (making the buy-out) for the company's shares over the last twelve months.

When the fair price is determined by the independent expert or brokerage company, the latter will compile a buy-out report, which describes the conditions of the buy-out, the method used for determining the fair price, and the price determined by using such method. The shareholder, who does not agree to sell his or her shares at the price set by the independent expert or brokerage company has the right to apply to the court with the request to set the different price for shares.

Georgian Mandatory Tender Offer Rules

According to Article 532 of the Law of Georgia on Entrepreneurs, if a shareholder acquires more than 50% of the voting shares of a company, it must make a tender offer to buy out all the remaining shares at a "fair price" (which is calculated the same way as described above for squeeze out) within 45 days from the moment of such acquisition, or bring the number of shares under its control below the 50% threshold by selling a portion of its shares.

The mandatory tender offer itself is made in accordance with the Georgian Law on Securities Market (the "Georgian Securities Act") and requires: (i) an application to the Georgian National Securities Commission ("the NSC") including the draft tender proposal; (ii) the sending of tender offers to all the other shareholders; (iii) the publication of the tender offer in the newspapers; and (iv) engaging a brokerage company to effect the share transfers. The tender offer is in force for at least two months and during that two-month period, the offeror is prohibited from purchasing the shares of the company. The offeror will not have the right to exercise its votes in respect of those shares exceeding 50% of the total issued share capital at the GMS until completion of the mandatory tender offer.

Significant Ownership of Shares

Holders of Shares or GDRs could be subject to reporting obligations under the Georgian Securities Act and Regulation No. 9 of the NSC. Pursuant to the Regulation No. 9, any person or a group of persons who acquires more than five percent of the voting shares of Bank of Georgia must give written notice to Bank of Georgia, the NSC and the stock exchange where the shares are traded. In accordance with the NSC Regulations, the notice must be given within 15 days of the acquisition. In addition, any person who, directly or indirectly, acquires or disposes of five percent of the voting shares of Bank of Georgia must also give written notice.

Pursuant to Regulation No. 7 of the NSC, each member of the Management and Supervisory Board of Bank of Georgia must notify the NSC, Bank of Georgia and the stock exchange where the securities of Bank of Georgia are traded of the following: (i) the number of securities he holds in Bank of Georgia; and (ii) each change in the number of securities he holds in Bank of Georgia, within 10 days of such appointment or change.

NON-COMPLIANCE WITH THE REPORTING OBLIGATIONS UNDER THE LAW ON SECURITIES MARKET IS AN ADMINISTRATIVE OFFENCE AND COULD LEAD TO ADMINISTRATIVE FINES AND CIVIL SANCTIONS, INCLUDING A SUSPENSION OF VOTING RIGHTS IN RESPECT OF THE SHARES AT THE NEXT GMS.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are each issued in respect of one ordinary share of par value GEL 1.00 each (the "**Shares**") in Joint Stock Company Bank of Georgia (the "**Company**") pursuant to and subject to an agreement dated 24 November 2006, and made between the Company and The Bank of New York in its capacity as depositary (the "**Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the "**Custodian**") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in Georgia as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The Offering will consist of Regulation S GDRs only. However, a depositary receipt facility for the issuance of Rule 144A GDRs is being established concurrently. No Rule 144A GDRs will be sold in the Offering. The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17 (*Agents*)) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

No treaty currently exists between the United Kingdom or the United States and Georgia for the reciprocal enforcement of foreign judgments. Accordingly, it may not be possible for a holder of GDRs to enforce in Georgian courts a judgement obtained in a court in the United Kingdom or the United States (for more information, see "Risk Factors—Risks Relating to the GDRs and the Trading Market—Enforceability of Foreign Judgments"). However, Georgia is a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which permits the reciprocal enforcement of foreign arbitral awards. The Deposit Agreement and the Deed Poll contain provisions allowing holders of GDRs to enforce their rights by arbitration rather than court proceedings.

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Subject to Condition 1.8, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Georgia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B (*Certificate and Agreement of Persons Receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs pursuant to Condition 1 of the GDRs and Clause 3.5 of the Deposit Agreement*), to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B (*Certificate and Agreement of Person Receiving Deposited Property upon withdrawal in relation to the Rule 144A GDRs pursuant to Condition 1 and Clause 3.5 of the Deposit Agreement*), to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Georgia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, excerpts of the records of the Independent Registrar, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto (including without limitation, the obligation of the surrendering Holder to obtain all required consents and approvals under the applicable laws of Georgia).

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A (*Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement *(which is described in the following paragraph)* by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A (*Certificate and Agreement of Acquirors of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement *(which is described in the second following paragraph)* by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the "Securities Act")), is located outside the United States and will comply with the restrictions on transfer set forth under "Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("QIB")) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4, Part A (*Certificate and Agreement of Acquirors of Rule 144A GDRs upon Deposit of Shares in the Rule 144A Facility pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A (*Certificate and Agreement of Persons Acquiring the Regulation S GDRs upon Deposit of Shares in the Regulation S Facility Pursuant to Condition 1 and Clause 3.3 of the Deposit Agreement*) of the Deposit Agreement.

1.8 Notwithstanding any other provisions of the Deposit Agreement or the Conditions, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell or cause the Custodian to sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary's holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Georgian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Georgian law or regulation in a material respect, as determined by the Depositary at its sole discretion or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of non-material or a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Georgian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells (or causes the Custodian to sell) Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the number of Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Condition in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Condition in connection with a GDR in definitive form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs.

1.9 The Company may from time to time request Holders to provide information (a) as to the capacity in which such Holders or beneficial owners own or owned GDRs, (b) regarding the identity of any other persons then or previously interested in such GDRs and (c) regarding the nature of such interest and various other matters pursuant to applicable law or the constitutional documents of the Company, all as if such GDRs were to the extent practicable the underlying Shares. Each Holder and beneficial owner agrees to provide promptly any information as required and requested by the Company or the Depositary. At the Company's written instructions the Depositary will distribute any such requests to Holders and return to the Company any responses to such requests received by the Depositary. In addition, Holders and beneficial owners shall be responsible for compliance with restrictions on the ownership of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular Holders and beneficial owners shall be responsible for ensuring that they do not own Shares, or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising 10 per cent. or more of the issued share capital of the Company at any time without the prior written approval of the National Bank of Georgia (or any successor authority from time to time) and shall notify the Company upon receipt of such approval.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by applicable law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"). Prior to expiration of the Distribution Compliance Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "**QIB**") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert or cause to convert the same into United States dollars in accordance with Condition 8 (*Conversion of Foreign Currency*). The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23 (*Notices*), specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute or cause to distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 (*Distribution of any Payments*) and 11 (*Withholding Taxes and Applicable Laws*); PROVIDED THAT:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute or cause to distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell or cause to sell such Shares so received and distribute or cause to distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal or cause to deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23 (*Notices*), of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights, after consultation with the Company, where reasonably practicable to do so, in the manner described below:

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Georgian Lari or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute or cause to distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell or cause to sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute or cause to distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 (*Cash Distributions*) to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Georgian Lari or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Georgian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute or cause to distribute such securities or other property to the Holders or sell or cause to sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute or cause to distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make arrangements for such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute or cause to distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*) or 10 (*Capital Reorganisation*) will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23 (*Notices*), in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8 (*Conversion of Foreign Currency*)) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*) and 9 (*Distribution of any Payments*) with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Georgian and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Georgia in order for the Depositary (or its agents) to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Conditions 4 (*Cash Distributions*), 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*) or 10 (*Capital Reorganisation*) or to be subscribed under Condition 7 (*Rights Issues*) or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders (or if the relevant law requires applying or filing by the Holders, the Company will assist the Holders to apply or file, as the case may be) within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute or cause to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make or cause to make any offer of any such rights or sell or cause to sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report. In the event that the Company requests the Depositary to assist with obtaining such authorisation, consent, registration or permit, or the filing of such report, the Depositary agrees to consult with the Company as to whether it is able to provide this assistance.

12. Voting Rights

12.1 Subject to Condition 1.8 and Condition 1.9, Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares subject to and in accordance with any applicable Georgian law. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor and request the Depositary in writing to prepare, in consultation with the Company, written proxy forms by which the Depositary will determine pursuant to this Condition 12.1 if a Holder will be permitted to give instructions to the Depositary to vote or cause to vote for or against each and any resolution specified in the agenda for the meeting (the "**Voting Instruction**"), and which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23 (*Notices*).

By holding the GDRs, each Holder is deemed to acknowledge and agree to comply with restrictions on the ownership of the underlying Shares imposed from time to time by Georgian law or by any Georgian regulatory authority or otherwise, and in particular that no person may own, or have the ability to exercise voting rights in respect of, Shares or GDRs or a combination of the foregoing, comprising more than 10 per cent. of the issued share capital of the Company at any time without the prior written approval of the National Bank of Georgia (or any successor authority from time to time).

Accordingly, each Holder will be required to certify in a Voting Instruction that:

(i) it owns Shares, or has the ability to exercise voting rights in respect of, Shares or Shares represented by GDRs or a combination of the foregoing, comprising less than 10 per cent. of the issued share capital of the Company, and in which case, the Depositary will exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction and the other provisions of this Condition 12.1; or

(ii) it owns Shares, or has the ability to exercise voting rights in respect of, Shares or Shares represented by GDRs or a combination of the foregoing, comprising 10 per cent. or more of the issued share capital of the Company, and in which case, it will also be required to: (a) disclose the identity of the ultimate beneficial owner(s) of the GDRs held by such Holder; and (b) certify that it has obtained all required consents and approval under the applicable laws of Georgia, and thereupon the Depositary will exercise such Holder's voting rights on behalf of the Holder in accordance with the Holder's Voting Instruction and the other provisions of this Condition 12.1,

PROVIDED that if no such certification is provided to the Depositary by a Holder (the "**Uncertified Holder**") with respect to any or all of the Deposited Shares represented by such Uncertified Holder's GDRs on or before the record date specified by the Depositary, such Uncertified Holder's Voting Instruction, if any, shall be deemed invalid and disregarded and such Uncertified Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, PROVIDED FURTHER THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary or its nominee to appoint or procure the appointment of a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Georgian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Georgian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received and in accordance with those instructions, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall not exercise voting rights in relation to such Deposited Shares and such voting rights shall lapse.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Georgian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote or cause to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chief Executive Officer of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Georgian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary or its nominee will not be deemed to be exercising voting discretion.

12.8 The Depositary is entitled to amend this Condition 12 and Clause 5 of the Deposit Agreement from time to time by written notice to the Company and the GDR Holders (and subject to the approval of (i) the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in Georgia, if required) where the Depositary considers it necessary to do so in order to comply with applicable Georgian law. By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Georgian law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary and/or the Custodian shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary and/or Custodian, as the case may be at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell or cause to sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16 (*Depositary's Fees, Costs and Expenses*), and subsequently pay or cause to pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23 (*Notices*).

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Georgia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs (i) by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement, or (ii) for the inability of a Holder or owner of GDRs, or any other person, to benefit from any distribution, offering, right or other benefit which is made available to holders of Deposited Shares which is not under the terms of this Deposit Agreement or the Conditions made available to Holders. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5 (*Distributions of Shares*), 6 (*Distributions other than in Cash or Shares*), 7 (*Rights Issues*), 10 (*Capital Reorganisation*), 13 (*Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary*) or 21 (*Termination of Deposit Agreement*) or any such conversion as is referred to in Condition 8 (*Conversion of Foreign Currency*) in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22 (*Amendment of Deposit Agreement and Conditions*), be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.3 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary (subject to Condition 14.3 below) shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under this Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Georgian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3 (*Transfer and Ownership*), the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(vii) a fee of U.S.$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, provided that no fee has been payable by a Holder pursuant to paragraph (iv) above in any such calendar year; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders and the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "**Official List**") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Georgia, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Georgia, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23 (*Notices*). Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use a reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 (*Notices*) and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23 (*Notices*).

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

1.1 Notwithstanding any other provisions of the Conditions or the Deposit Agreement, the Depositary may, with (to the extent reasonably practicable) prior notice to the Company and the Holders terminate the Deposit Agreement, if (i) the Depositary or its agent receives any notice from any Georgian governmental or regulatory authority that the existence or operation of a Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Georgian law or regulation in a material respect, as determined by the Depositary at its sole discretion, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate that Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which the Depositary in its reasonable discretion considers to be of a non-material routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Georgian counsel that the Depositary (or the Custodian or any of their respective nominees) could reasonably be subject to criminal or civil liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), delivery of the Deposited Property relative to each GDR held by it upon surrender thereof and payment by the Holder of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Notwithstanding the foregoing, if any laws, rules or regulations under Georgian law require immediate amendment or supplement to the Deposit Agreement or the Conditions, the Company and the Depositary may amend or supplement the Deposit Agreement and Conditions as required, subject to provision of notice to GDR Holders of such amendments as soon as reasonably practicable. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1 (*Withdrawal of Deposited Property and Further Issues of GDRs*), the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address, telex or facsimile number of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-

(i) in respect of the financial year ending on 31 December 2006 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with IFRS and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, by the Company, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it or its agents by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Georgian law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with the Bank of New York, London Branch as a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited. The Master Rule 144A will be registered in the name of Cede & Co as nominee for DTC and will be held by The Bank of New York, London branch, as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the conditions of the GDRs set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the terms and conditions of the GDRs (the "Conditions") shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances descried in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

(i) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) advises the Bank in writing at any time that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder. A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 6, 9 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereuon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Bank under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Bank. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR. Holders of GDRs will have voting rights as set out in the Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Conditions of the GDRs relating to the surrender of a Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a Rule 144A GDR to the Depositary shall he satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR.

The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee of the common depositary for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC, Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDRs shall be governed by and construed in accordance with English law.

INFORMATION RELATING TO THE DEPOSITARY

The Bank of New York has been appointed as Depositary pursuant to the Deposit Agreement.

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL.

TAXATION

The following summary of material UK and Georgian tax consequences of ownership of the GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs or shares.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT HIS, HER OR ITS TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs OR SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

United Kingdom

The following paragraphs are intended as a general guide to current UK tax law and H.M. Revenue & Customs ("HMRC") practice (both of which are subject to change at any time, possibly with retrospective effect) in respect of the taxation of capital gains, the taxation of dividends paid by the Bank, inheritance tax, stamp duty and stamp duty reserve tax. They relate only to persons who are beneficial owners of the GDRs (the "Holders"). These paragraphs may not relate to certain classes of Holders (such as employees or directors of the Bank or its affiliates, persons who are connected with the Bank, insurance companies, charities, collective investment schemes, pension providers or persons who hold GDRs otherwise than as an investment). These paragraphs assume that the GDRs and the Shares will not be registered in a register kept in the UK and that the Shares will not be paired with shares issued by a corporate body incorporated in the UK. These paragraphs do not describe the circumstances in which Holders may benefit from an exemption or relief from taxation. All Holders are recommended to obtain their own taxation advice. In particular, non-UK resident or domiciled Holders are advised to consider the potential impact of any relevant double tax agreements.

Taxation of capital gains

UK residents

A disposal of GDRs by an individual Holder who is resident or ordinarily resident and domiciled in the UK may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. An individual Holder who, on or after 17 March 1998, ceases to be resident or ordinarily resident in the UK for a period of less than five years and who disposes of the GDRs during that period of temporary non-residence may be liable to capital gains tax on his or her return to the UK. A disposal of GDRs by an individual Holder who is resident or ordinarily resident in the UK but not domiciled in the UK may only give rise to a chargeable gain for the purposes of capital gains tax if and to the extent that amounts in respect of that chargeable gain are treated as received in the UK.

A disposal of GDRs by a corporate Holder which is resident in the UK may give rise to a chargeable gain or an allowable loss for the purposes of corporation tax.

Non-UK residents

An individual Holder who is not resident or ordinarily resident in the UK will not be liable for capital gains tax on capital gains realised on the disposal of his or her GDRs unless that Holder carries on a trade, profession or vocation in the UK through a branch or agency in the UK and the GDRs were acquired, used in or for the purposes of the branch or agency or used in or for the purposes of the trade, profession or vocation carried on by the Holder through the branch or agency.

A corporate Holder which is not resident in the UK will not be liable for corporation tax on capital gains realised on the disposal of its GDRs unless it carries on a trade in the UK through a permanent establishment in the UK and the GDRs were acquired, used in or for the purposes of the establishment or used in or for the purposes of the trade carried on by the Holder through the establishment.

Taxation of dividends

UK residents

An individual Holder who is resident or ordinarily resident and domiciled in the UK may be subject to income tax on dividends received from the Bank. An individual Holder who is resident in the UK but not ordinarily resident or domiciled in the UK may, on making a claim to HMRC in respect of a tax year, only be subject to income tax in respect of dividends paid by the Bank if and to the extent that amounts in respect of that dividend are treated as received in the UK.

A corporate Holder which is resident in the UK will be subject to corporation tax on dividends paid by the Bank.

Non-UK residents

An individual Holder who is not resident or ordinarily resident in the UK will not be subject to income tax on dividends paid by the Bank.

A corporate Holder who is not resident in the UK will not be subject to corporation tax on dividends paid by the Bank.

Inheritance tax

UK domiciliaries

If an individual Holder is regarded as domiciled in the UK for inheritance tax purposes, inheritance tax may be payable in respect of the GDRs on the death of the Holder or on any gifts of the GDRs during the Holder's lifetime that qualify as a chargeable lifetime transfer of value.

Non-UK domiciliaries

If an individual Holder is regarded as domiciled outside of the UK for inheritance tax purposes, inheritance tax will not be payable in respect of the GDRs on the death of the Holder or on any gift of the GDRs during the Holder's lifetime on assumption that the GDRs and the Shares will not be registered in a register kept in the UK.

Stamp duty and stamp duty reserve tax

No stamp duty reserve tax will be payable on the issue or transfer of the Shares or the GDRs on the assumption that the Shares and the GDRs will not be registered in a register kept in the UK and that the Shares will not be paired with shares issued by a body corporate incorporated in the UK.

No stamp duty will be payable on the issue of the Shares. No stamp duty will be payable on a transfer of the Shares or the GDRs provided that the instrument of transfer is executed outside of the UK and does not relate to any property situated in the UK or to any matter or thing done or to be done in the UK.

Georgia

The following is a general description of certain Georgian tax considerations relating to the Bank's business and of the ownership of GDRs. It does not purport to be a complete analysis of all relevant tax considerations, whether in Georgia or elsewhere. Prospective investors should consult their own tax advisers as to which countries' tax laws could be relevant to their acquiring, holding and disposing off of the GDRs and receiving any dividends and consequences of such actions under the tax laws of those countries. The descriptions of the Georgian tax laws and practices set forth below are based on the statutes, regulations, rulings, judicial decisions and other authorities in force and applied in practice as of the date of this Prospectus, all of which are subject to change (possibly with retroactive effect) and differing interpretations.

Corporate profit tax

Entities conducting activities in Georgia are subject to corporate profit tax. Georgian entities, which are entities incorporated or managed in Georgia, are required to pay corporate profit tax on their worldwide income, whereas foreign entities are required to pay corporate profit tax on Georgian-source income only. Taxable profit of Georgian entities, as well as of foreign entities operating in Georgia through its permanent establishment, is a difference between taxable income and tax-deductible expenses. Corporate profit tax rate applied to taxable profit is flat and equals to 20%.

A permanent establishment is defined as any permanent location in Georgia and generally includes any entity or natural person through which a foreign entity conducts its business activities in Georgia. Domestic tax law and double tax treaties list activities that do not result in a taxable permanent establishment.

Foreign entities earning Georgian-source income (including dividends and interest income) without a permanent establishment in Georgia are subject to withholding tax on this income at the source of payment (i.e. by the company paying income) at a rate of 4% or 10%, depending on the type of revenue received. Certain relief on non-resident income withholding tax may be available pursuant to the applicable double taxation treaties, if any.

Georgian withholding tax on dividends

A 10% withholding tax is imposed on dividends paid to natural persons and foreign entities, that is subject to certain relief that may be available pursuant to the applicable double taxation treaties, if any. Dividends paid to Georgian entities or Georgian permanent establishments of foreign entities are not subject to withholding tax and are not included in taxable profit.

Georgian withholding tax on interest

A 10% withholding tax is imposed on interest payments made by Georgian entities or Georgian permanent establishments of foreign entities provided that source of interest income is in Georgia. Interest paid on the loans from resident banks is not subject to withholding tax. Certain relief on withholding tax on interest income may be available pursuant to the applicable double taxation treaties, if any.

Georgian tax on capital gains

Georgia has no separate tax on capital gains. Capital gains of resident natural persons as well as Georgian-source capital gains of non-resident natural persons arising from the sale of any assets (including securities) are taxable at a flat personal income tax rate of 12%. Sale of tangible assets (arguably securities could be interpreted as tangible assets in the light of domestic tax law) being in the ownership of a natural person for more than two years is exempted from personal income tax. Non-resident private persons are required to register as taxpayers in Georgia and file a personal income tax declaration and pay personal income tax on capital gains before 1 April of the year subsequent to the year in which the gain was generated.

Capital gains of Georgian entities as well as Georgian-source capital gains of foreign entities are taxable similarly to other taxable profit at the flat profit tax rate of 20%. Foreign entities are required to register as taxpayers in Georgia before declaring and paying their Georgian tax liabilities. A deadline for declaring and paying corporate profit tax is April 1 of the year subsequent to the year in which the profit or gain was generated.

Certain relief on the taxation of capital gains may be available to both non-resident individuals and companies pursuant to the applicable double taxation treaties, if any.

Property tax

Georgia applies a property tax at a flat rate of up to 1% on the annual average net balance sheet value of non-current assets, both tangible and intangible, of Georgian entities as well as Georgian permanent establishments of foreign entities. This is a local tax as opposed to state-wide taxes, therefore the exact rate for the tax is fixed by the local government of Georgia. Notably, land and certain movable property (cars, yachts, etc.) are taxed based on specific rules set out by domestic tax law.

Value added tax

The Tax Code of Georgia set the value added tax at the rate of 18%. Certain business activities, such as financial services, among others, are exempt from VAT. The Tax Code of Georgia sets forth the mechanism for offsetting input VAT (VAT on purchase and import) against output VAT (VAT on sale) on a monthly basis. A taxable event is a supply or import of goods regarded to Georgia.

Companies are required to file a VAT declaration for the reporting month within 15 days after the end of the reporting month and offset input VAT against output VAT and transfer the difference to the state budget. Access VAT can be reclaimed back or offset against future VAT or current tax liabilities pursuant to the special provisions of Tax Code of Georgia.

Social tax

Georgia applies a social tax at the flat rate of 20% on the gross salary of employees as well as on certain type of business income of natural persons. The social tax on salaries is accrued and paid by the employer.

There are no other mandatory contributions.

Double taxation treaties

As of the date hereof, Georgia has entered into double taxation treaties with the following countries: Armenia, Azerbaijan, Belgium, Bulgaria, China, France, Germany, Greece, Iran, Italy, Kazakhstan, Latvia, Lithuania, The Netherlands, Romania, Turkmenistan, Ukraine, United Kingdom and Uzbekistan. Georgia is in the process of entering into double taxation treaties with Austria, Poland and Russia.

Double taxation treaties vary from country to country and, therefore, need to be analysed in light of the specific circumstances of a prospective investor. In general, double taxation treaties provide relief from payment of non-resident income withholding tax (such as on interest payments, for instance), as well as withholding tax on dividends and capital gains in Georgia when the non-resident has invested in the Georgian company in excess of a certain investment threshold, while taxing dividends and capital gains in other cases at lower tax rates compared to the statutory rates.

SUBSCRIPTION AND SALE

Under the terms of, and subject to, the conditions contained in an underwriting agreement dated 24 November 2006 (the "Underwriting Agreement") entered into among Bank of Georgia, the Selling Shareholders, JSC Galt & Taggart Securities, as selling agent, and the Managers, the Managers named below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer of Price, the number of Shares, in the form of GDRs, indicated below. Bank of Georgia has agreed to issue, and the Selling Shareholders have agreed to make available, at the Offer Price, to the Managers, the number of Shares in the form of GDRs indicated below:

Name	Number of Shares	Number of Shares In Respect of Over-Allotment Option
ING Bank N.V., London Branch	6,563,631	984,545
Bank Austria Creditanstalt AG	1,158,288	173,743
Total	7,721,919	1,158,288

The GDRs will be represented by a Master GDR, and will be subject to certain restrictions as further discussed in "Terms and Conditions of the Global Depositary Receipts" and "Transfer Restrictions".

The Underwriting Agreement contains the following additional provisions, among others:

- Bank of Georgia has granted to ING, on behalf of the Managers, an Over-Allotment Option, exercisable until 30 days after the date of publication of the final Prospectus for the Offering, to procure purchasers for up to 1,158,288 additional Shares in the form of up to 1,158,288 additional GDRs to cover over-allotments if any, and to cover short positions relating to stabilisation activities. The Over-Allotment Option is exercisable upon written notice to Bank of Georgia by ING, on behalf of the Managers.
- The Managers will deduct from the proceeds of the Offering, or Bank of Georgia will otherwise pay:
  - Costs and expenses incurred by the Lead Manager in connection with the Offering;
  - Underwriting commissions payable by Bank of Georgia of US$4,738,982 in respect of the Offering (assuming the Over-Allotment Option is not exercised); and
  - Underwriting commissions payable by Bank of Georgia in respect of any additional GDRs offered as a result of the exercise of the Over-Allotment Option, up to a total of US$617,967 if the Over-Allotment is exercised in full.
- Bank of Georgia has provided the Managers customary representations and warranties under the Underwriting Agreement in respect of the Offering.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. ING, on behalf of the Managers, may terminate the Underwriting Agreement prior to Admission in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the condition (financial or otherwise), or in the earnings or business affairs of Bank of Georgia and certain changes in the financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions is not satisfied (or expressly waived in writing) as and when required by the Underwriting Agreement, or the Underwriting Agreement is terminated prior to payment for the GDRs, then the Offering will lapse.
- Bank of Georgia has agreed to give customary indemnities and contribution to the Managers against certain liabilities in respect of the Offering.

Bank of Georgia and the Selling Shareholders have also agreed that none of them nor any of its or their subsidiaries, jointly controlled entities or associates, nor any other affiliates, nor any person acting on behalf of any of them will, at any time during a period of 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period, without the prior written consent of ING acting in good faith, issue, offer, sell, contract to issue or sell, pledge, charge, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility, or otherwise transfer or dispose of or register (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option, grant, deposit, transfer, disposal or registration of), directly or indirectly, any ordinary or preferred shares of Bank of Georgia, or GDRs representing such shares, or any securities convertible or exchangeable into or exercisable for any ordinary or preferred shares of Bank of Georgia or warrants or other rights to purchase ordinary or preferred shares of Bank of Georgia or any security or financial product whose value is determined directly or indirectly by reference to the price of underlying ordinary or preferred shares of Bank of Georgia or securities convertible or exchangeable into or exercisable for ordinary or preferred shares of Bank of Georgia, including equity swaps, forward sales and options, or GDRs representing the right to receive any such securities, or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of any ordinary or preferred shares or GDRs, except as contemplated as part of the Offering described herein. In addition, the Selling Shareholders have also agreed that none of them nor any of their subsidiaries, jointly controlled entities, associates, affiliates, nor any person acting on their behalf will, at any time during a period of 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period, without the prior written consent of ING acting in good faith, participate in the Offering and will use all reasonable endeavours to procure that no connected person participates in the Offering. These restrictions will not preclude JSC Galt & Taggart Securities from entering into transactions in the ordinary course of its business pursuant to instructions from its clients or customers.

In addition to the Underwriting Agreement, Bank of Georgia and the Managers further entered into lock-up deeds, dated on or around the same date as the Underwriting Agreement, with Sulkhan Gvalia (the "Gvalia Lock-Up Deed") and East Capital Bering Russia Fund, East Capital Bering Ukraine Fund, East Capital Financial Institutions II AB, Firebird Avrora Fund, Firebird Republics Fund and Firebird Global Master Fund (the "East Capital/Firebird Lock-Up Deed"), each of which is a shareholder of Bank of Georgia.

Pursuant to the Gvalia Lock-Up Deed, Sulkhan Gvalia has agreed to a lock-up arrangement on materially similar terms as the Selling Shareholders, and for the same 12-month period. Pursuant to the Gvalia Lock-Up Deed, these restrictions will not preclude any disposal by Sulkhan Gvalia of an aggregate of up to 50,000 Shares, or GDRs representing such shares.

Pursuant to the East Capital/Firebird Lock-Up Deed, East Capital Bering Russia Fund, East Capital Bering Ukraine Fund, East Capital Financial Institutions AB II, Firebird Avrora Fund, Firebird Republics Fund and Firebird Global Master Fund have represented and warranted to the Managers (as a continuing representation and warranty from the date of the East Capital/Firebird Lock-Up Deed until 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period) that each such person does not currently have any intention to, and, to the best of their knowledge, none of their subsidiaries, jointly controlled entities, associates, affiliates, nor any person acting on its or their behalf have any intention to, (a) participate in the Offering nor (b) directly or indirectly, offer, sell, contract to issue or sell, pledge, charge, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of or register (or publicly announce any such issue, offer, sale, contract to sell, pledge, charge, option, grant, deposit, transfer, disposal or registration) any ordinary or preferred shares of Bank of Georgia, or GDRs representing such shares, or any securities convertible into or exercisable or exchangeable for ordinary or preferred shares of Bank of Georgia or warrants or other rights to purchase ordinary or preferred shares of Bank of Georgia or any security or financial product whose value is determined directly or indirectly by reference to the price of underlying ordinary or preferred shares of Bank of Georgia or securities convertible or exchangeable into or exercisable for ordinary or preferred shares of Bank of Georgia, including equity swaps, forward sales or options, or any GDRs representing the right to receive any such securities, or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of any ordinary or preferred shares or GDRs. These East Capital and Firebird parties have further undertaken to notify the Lead Manager if there is a change in any such intention at any time until 12 months after the later of (i) the Closing Date, (ii) the last closing date pursuant to an exercise of the Over-Allotment Option and (iii) the last day of the stabilisation period. These representations, warranties and undertakings do not preclude the participation in the Offering (as a purchaser of GDRs in the Offering) of any such person or its subsidiaries, jointly controlled entities, associates, affiliates, connected persons or persons acting on its or their behalf, provided that each such person ensures that it does not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result in stabilisation or manipulation of the price of any security of Bank of Georgia to facilitate the sale or resale of the shares of Bank of Georgia, or GDRs representing such shares and in the Offering.

The Managers and their affiliates have engaged in and performed, and may from time to time engage in and perform, other investment banking, commercial dealing and advisory services for Bank of Georgia for which they may receive customary fees and commissions.

In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Bank of Georgia has applied, pursuant to a block listing, to the UK FSA in its capacity as competent authority under the FSMA, to admit up to 25,335,619 GDRs (of which 7,721,919 will be issued or sold on the Closing Date, 1,158,288 of which will be sold pursuant to the Over-Allotment Option, if exercised and 16,455,412 additional GDR's to be issued from time to time against the deposit of shares of Bank of Georgia wit the Depositary) to the Official List and to the LSE to admit such GDRs for trading under the symbol BGEO. Trading in the GDRs on the LSE is expected to commence on 24 November 2006 on a when- and if-issued basis. Closing and settlement are expected to take place on 28 November 2006, and admission to the Official List and to trading on the LSE is expected to take place on 29 November 2006.

The following is a summary of the selling restrictions applicable to the GDRs. See "Terms and Conditions of the Global Depositary Receipts" and "Transfer Restrictions".

United States. The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. The Managers propose to offer the Securities to investors outside the United States only in accordance with Rule 903 of Regulation S.

European Economic Area. In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Securities which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State, other than the offers contemplated herein once this Prospectus has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and published and passported as may be required in that Relevant Member State, all in accordance with the Prospectus Directive as implemented in that Relevant Member State, *except* that an offer to the public may be made in that Relevant Member State of any Securities at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000, and (3) an annual net turnover of more than €50,000,000 as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive; *provided* that no such offer of Securities shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Securities pursuant to, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed that: (a) it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and (b) in the case of any Securities being acquired by it as a "financial intermediary," as that term is used in Article 3(2) of the Prospectus Directive, (i) the Securities acquired by it in the offering contemplated by this Prospectus have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" (as that term is defined in the Prospectus Directive) or in circumstances in which the prior consent of ING, on behalf of the Managers, has been given to each such proposed offer or resale; or (ii) where Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities to it is not treated under the Prospectus Directive as having been made to such persons. Bank of Georgia, ING and their respective affiliates, and others will rely (and Bank of Georgia acknowledges, consents and agrees that ING and their affiliates and others will and will be entitled to rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements and ING will not be responsible for any loss occasioned by such reliance. Notwithstanding the above, a person who is not a qualified investor and who has notified ING of such fact in writing may, with the prior written consent of ING, be permitted to purchase Securities.

For the purposes of this subsection, the expression an "offer to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom. No invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by ING may be communicated or cause to be communicated by it in connection with the issue or sale of any Securities except in circumstances in which section 21(1) of the FSMA does not apply to Bank of Georgia, and all applicable provisions of the FSMA with respect to anything done by ING in relation to the Securities in, from or otherwise involving the United Kingdom must be complied with.

Georgia. ING or their affiliates has agreed that in respect of the GDRs it will not directly or indirectly make an *"Offer of Securities"* in Georgia within the meaning of Article 2.47 of the Law of Georgia on Securities Market except to *"Sophisticated Investors"* as defined by Article 2.8 and regulated by Article 3.6 of the Law of Georgia on Securities Market except and in compliance with Georgian law. Accordingly nothing in this Prospectus or any documents, information or communications related to the GDRs shall be interpreted as containing any *Offer of Securities* (except to *Sophisticated Investors* as described above) in the territory of Georgia. For the avoidance of doubt, any involvement of any *"Brokerage Company"* (as defined in Article 2.26 of the Law of Georgia on Securities Market) is not considered to be an *Offer of Securities*.

Russia. No Russian prospectus has been registered or is intended to be registered with respect to the Securities and the Securities have not been and are not intended to be registered in the Russian Federation and, consequently, no Securities may be offered or sold or otherwise transferred as part of the Offering or at any time thereafter to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law. ING or their affiliates may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute an "advertisement" (as defined under Russian law) of the Securities and may resell the Securities to Russian persons in a manner that does not constitute "placement" or "public circulation" of the Securities in the Russian Federation (as defined under Russian law).

General. No action has been or will be taken in any jurisdiction that would permit a public offering of the shares or the GDRs, or the possession, circulation or distribution of this Prospectus or any other offering or publicity material relating to Bank of Georgia or the Securities, in any jurisdiction where action for such purpose is required.

Accordingly, the Securities may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering or publicity material or advertisement in connection therewith be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by Bank of Georgia or ING. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in Bank of Georgia's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

TRANSFER RESTRICTIONS

Purchasers are advised to consult legal counsel prior to making any resale, pledge or transfer of Shares or GDRs.

Regulation S GDRs

The Offering is being made in accordance with Regulation S of the Securities Act. The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and, accordingly, the GDRs may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons, except in accordance with Regulation S or another exemption from such registration requirements. Terms used in this paragraph that are defined in the Securities Act are used herein as so defined.

Each purchaser of GDRs will be deemed to have represented and agreed as follows:

1. It acknowledges (or if it is a broker-dealer, its customer has confirmed to it that such customer acknowledges) that the Master GDR, the GDRs evidenced thereby and the Shares represented thereby have not been and will not be registered under the Securities Act and that the sale of the GDRs is being made pursuant to and in accordance with Regulation S.
2. It certifies that either: (a) it is, or at the time the Shares represented by the GDRs are deposited and at the time the GDRs are issued will be, the beneficial owner of the Shares represented by such GDRs and (i) it is not a U.S. person (as defined in Regulation S) and it is located outside the United States and has acquired, or has agreed to acquire and will have acquired, GDRs outside the United States, (ii) it is not an affiliate of Bank of Georgia or a person acting on behalf of such an affiliate, and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the GDRs from Bank of Georgia or any affiliate thereof in the initial distribution of Shares or GDRs; or (b) it is a broker-dealing acting on behalf of its customer, its customer has confirmed to it that such customer is, or at the time the Shares are deposited and at the time the GDRs are issued will be, the beneficial owner of the Shares represented by such GDRs and (i) it is not a U.S. person and it is located outside the United States and acquired, or has agreed to acquire and will have acquired, the GDRs outside the United States, (ii) it is not an affiliate of Bank of Georgia or a person acting on behalf of such an affiliate, and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Shares or the GDRs from Bank of Georgia or any affiliate thereof in the initial distribution of the Shares and the GDRs.
3. It agrees (or if it is a broker-dealer, its customer has confirmed to it that such customer agrees) that prior to the expiration of 40 days after the latest of the commencement of the offering of GDRs, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs, if any, issued to cover over-allotments (the "Restricted Period") neither we (or it) will offer, sell, pledge or otherwise transfer any GDRs or the Shares represented thereby except (i) in an offshore transaction to a person other than a U.S. person in accordance with Rule 903 or 904 of Regulation S under the Act, (ii) pursuant to an exemption from the legislation requirements of the Securities Act provided by Rule 144A under the Securities Act (if available) or (iii) pursuant to an effective registration statement under the Securities Act, in either case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
4. It understands that the Master GDR will contain legends to the following effect unless the Issuer determines otherwise in compliance with applicable laws:

NEITHER THIS GLOBAL REGULATION S GDR, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THE GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS GLOBAL REGULATION S GDR AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED

HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF REGULATION S GDRs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, AND (II) THE LAST CLOSING DATE WITH RESPECT TO THE REGULATION S GDRs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS GLOBAL REGULATION S GDR OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS. UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS GLOBAL REGULATION S GDR, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by Bank of Georgia or the Depositary in respect of the Regulation S Master GDR, the Regulation S GDRs evidenced thereby and the Shares represented thereby.

Rule 144A GDRs

No Rule 144A GDRs will be sold in the Offering. Each purchaser of Rule 144A GDRs in any future offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is a QIB, (ii) is aware that, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.
2. The purchaser is aware the Rule 144A GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act.
3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Bank and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JOINT STOCK COMPANY BANK OF GEORGIA REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JOINT STOCK COMPANY BANK OF GEORGIA THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE

SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. Notwithstanding anything to the contrary in the foregoing, the Shares represented by the Rule 144A GDRs may not be deposited into any depositary receipt facility in respect of the Shares established or maintained by a depositary bank (including any such facility maintained by the Depositary for the Rule 144A GDRs), other than a Rule 144A restricted depositary receipt facility, so long as such Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to other persons, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures and the terms of the Deposit Agreement.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation-United States Federal Income Taxation."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for the Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC.

As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Bank for holders holding through Euroclear or Clearstream, and Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Bank for holders holding through DTC are received by DTC.

The Bank will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary market trading

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see "*Transfer Restrictions*".

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearsream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date.Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Bank, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Bank with respect to the laws of England and Wales by Baker & McKenzie LLP and with respect to Georgian law by DLA Piper Gvinadze & Partners LP.

INDEPENDENT AUDITORS

The Annual Financial Statements of the Bank prepared in accordance with IFRS as of and for the years ended 31 December 2005, 2004 and 2003, included elsewhere in this Prospectus, have been audited in accordance with International Standards on Auditing by E&Y.

E&Y 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 June 2006 and for the six month period then ended which are included in this Prospectus.

The business address of E&Y is 44 Leselidze Street, Tbilisi, Georgia, 0105.

E&Y is registered to carry out audit work by the Audit Activity Committee of the Parliament of Georgia.

GENERAL INFORMATION

1. Application has been made (i) to the UK FSA in its capacity as competent authority under the FSMA for a block listing of 7,721,919 GDRs, to be issued on or about the Closing Date, up to 1,158,288 Additional GDRs to be issued pursuant to the Over-Allotment Option, as described herein, and up to 16,455,412 additional GDRs to be issued from time to time against the deposit of shares with Depositary, to be admitted to the official list of the Official List and (ii) to the LSE for the GDRs to be admitted to trading on the LSE's Regulated Market. It is expected that conditional trading in the GDRs will commence on a when and if issued basis on or about 24 November 2006 and that unconditional trading in the GDRs on the LSE will commence on 29 November 2006.

2. Bank of Georgia has obtained all consents, approvals and authorisations in connection with the Offering. The issuance of the shares was authorised by the EGM resolution passed on 6 November 2006.

3. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Baker & McKenzie LLP, 100 New Bridge Street, EC4V 6JA for one month from the date of this Prospectus:

   a. Bank of Georgia's Charter (English translation);

   b. the Deposit Agreement;

   c. the Underwriting Agreement; and

   d. the audited consolidated financial statements as of 31 December 2005, 2004 and 2003 and for the years then ended, together with the auditors' report relating thereto and the interim financial statements as of 30 June 2006.

4. The address of the Lead Manager is as follows:

   ING Bank N.V., London Branch
   60 London Wall
   London, EC2M 5TQ

5. Except as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," on page 34, there has been no significant change in the financial or trading position of the Bank since 30 June 2006.

6. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by ING.

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BANK OF GEORGIA GROUP

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

BANK OF GEORGIA GROUP
2005 CONSOLIDATED FINANCIAL STATEMENTS

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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

BANK OF GEORGIA GROUP
CONSOLIDATED FINANCIAL STATEMENTS

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.

BANK OF GEORGIA GROUP
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.

BANK OF GEORGIA GROUP
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.

BANK OF GEORGIA GROUP
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.

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, 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 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.

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2005	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
Subsidiary					
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	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
Subsidiary					
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).

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

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

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 consolidated statement of operations.

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 consolidated 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.

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.

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.

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 income, 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.

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.

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 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.

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.

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 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 consolidated 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 income statement charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for the awards 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.

Segment reporting

The Group's operations are highly integrated and primarily constitute a single industry segment, 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.

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.

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.

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
Mining	3,667	876	3,163
Construction	12,668	14,621	11,512
Transport and communication	13,646	5,817	3,312
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**

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**	**—**	**—**	**—**	**—**

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**

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**

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 31 December 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**

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 31st, 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**

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
—legal	—	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.

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**

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)

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.

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 corporate promissory notes 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 promissory notes is 2 years and the applicable interest rate is 11% per annum.

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**

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**

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**

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.

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
Amounts 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.

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.

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.

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.

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
Amount 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**

	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
Amount 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**

	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.

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**

	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.

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**	

	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.

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.

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**	—	—	—	—

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

	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	—

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 SIX MONTHS ENDED JUNE 30, 2006

BANK OF GEORGIA GROUP

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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 June 2006 and the related interim consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other 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 do not present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2006 and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

August 31, 2006
Tbilisi, Georgia

BANK OF GEORGIA GROUP
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET
As of June 30, 2006
(Thousands of Georgian Lari)

	Notes	30 June 2006	31 December 2005
		Unaudited	Audited
Assets			
Cash and cash equivalents	5	108,160	57,236
Amounts due from credit institutions	6	47,954	33,398
Loans to customers, net	7	447,883	297,376
Net investment in lease	8	4,958	4,314
Investment securities:			
—available-for-sale	9	2,083	8,327
—held-to-maturity	9	200	2,280
Property and equipment, net	10	48,509	35,815
Intangible assets, net	11	25,254	7,685
Income tax assets	12	309	2,570
Prepayments		3,274	455
Other assets	14	26,999	11,114
Total assets		**715,583**	460,570
Liabilities			
Amounts owed to credit institutions	15	138,308	78,873
Amounts owed to customers	16	444,889	269,952
Debt securities issued	17	1,333	1,143
Income tax liabilities	12	2,825	2,087
Provisions	13	—	975
Other liabilities	14	21,337	16,078
Total liabilities		**608,692**	369,108
Equity	18		
Share capital		15,538	14,729
Share premium		37,382	32,922
Treasury shares		(155)	(81)
Retained earnings		47,828	37,427
Other reserves		5,313	5,369
Total equity attributable to shareholders		**105,906**	90,366
Minority interest		985	1,096
Total equity		**106,891**	91,462
Total liabilities and equity		**715,583**	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**

August 31, 2006

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF INCOME
For the six months ended June 30, 2006
(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2006	2005
		Unaudited	
Interest income			
Loans to customers		36,351	21,427
Amounts due from credit institutions		1,227	902
Debt securities owned		430	1,601
Net investment in lease		385	110
		38,393	24,040
Interest expense			
Amounts owed to customers		7,665	4,141
Amounts owed to credit institutions		4,783	1,564
Debt securities issued		50	—
		12,498	5,705
Net interest income		**25,895**	18,335
Impairment of interest earning assets	13	7,085	3,622
Net interest income after impairment of interest earning assets		**18,810**	14,713
Fees and commissions income		11,912	7,112
Fees and commissions expense		1,665	1,065
Net fees and commissions income	20	**10,247**	6,047
Gains less losses from foreign currencies:			
—dealing		4,954	1,349
—translation differences		(352)	1,289
Net insurance premiums earned		3,749	1,781
Other operating income		1,014	297
Other non-interest income		**9,365**	4,716
Salaries and other employee benefits	21	13,351	11,007
Administrative expenses	21	8,254	5,108
Depreciation, amortization and impairment	10, 11	2,530	2,014
Net insurance claims incurred		813	474
Impairment of other assets and provisions	13	(1,155)	(555)
Other operating expenses		392	666
Other non-interest expense		**24,185**	18,714
Income (loss) before income tax expense		**14,237**	6,762
Income tax expense (benefit)	12	3,211	593
Net income (loss) for the period		**11,026**	6,169
Attributable to:			
—shareholders of the Group		11,121	6,288
—minority interest		(95)	(119)
		11,026	6,169
Earnings (loss) per share:	18		
—basic		0.73	0.55
—diluted		0.73	0.55

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended June 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	—	—	—	56	(56)	—	—	—
Total income and expense recognised directly in equity	**—**	**—**	**—**	**56**	**(56)**	**—**	**—**	**—**
Net income (loss) for the year	—	—	—	11,121	—	11,121	(95)	11,026
Total income and expense for the year	**—**	**—**	**—**	**11,177**	**(56)**	**11,121**	**(95)**	**11,026**
Issuance of share capital (Note 18)	809	5,307	—	—	—	6,116	—	6,116
Dividends declared (Note 18)	—	—	—	(776)	—	(776)	—	(776)
Minority interest through acquisition	—	—	—	—	—	—	86	86
Acquisition of minority interests in existing subsidiaries	—	—	—	—	—	—	(102)	(102)
Purchase of the treasury shares by subsidiary	—	(847)	(74)	—	—	(921)	—	(921)
June 30, 2006 *(unaudited)*	**15,538**	**37,382**	**(155)**	**47,828**	**5,313**	**105,906**	**985**	**106,891**
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	—	—	—	56	(56)	—	—	—
Total income and expense recognised directly in equity	**—**	**—**	**—**	**56**	**(56)**	**—**	**—**	**—**
Net income (loss) for the year	—	—	—	6,288	—	6,288	(119)	6,169
Total income and expense for the year	**—**	**—**	**—**	**6,344**	**(56)**	**6,288**	**(119)**	**6,169**
Issuance of share capital (Note 18)	192	404	—	—	—	596	—	596
Acquisition of additional interest in existing subsidiaries by minority shareholders	—	—	—	—	—	—	365	365
Acquisition of minority interests in existing subsidiaries	—	—	—	(405)	—	(405)	(380)	(785)
Sale of the treasury shares by subsidiary	—	37	11	—	—	48	—	48
June 30, 2005 *(unaudited)*	**11,465**	**13,817**	**(62)**	**29,850**	**5,436**	**60,506**	**1,347**	**61,853**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

BANK OF GEORGIA GROUP
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended June 30, 2006
(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2006	2005
		Unaudited	
Cash flows from operating activities			
Interest received		33,863	20,627
Interest paid		(9,899)	(4,878)
Fees and commissions received		11,912	7,112
Fees and commissions paid		(1,665)	(1,065)
Recoveries of assets previously written off		332	1,037
Insurance premiums received		4,428	2,617
Insurance claims paid		(870)	(416)
Realized gains less losses from dealing in foreign currencies		4,954	1,349
Other operating income received		959	117
Salaries and benefits paid		(13,351)	(11,007)
Administrative and other operating expenses		(8,645)	(5,773)
Cash flows from operating activities before changes in operating assets and liabilities		**22,018**	9,720
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(10,731)	(4,351)
Loans to customers		(146,891)	(47,973)
Net investment in lease		(644)	(1,706)
Other assets		(11,822)	(2,138)
Net increase /(decrease) in operating liabilities			
Amounts owed to credit institutions		51,653	5,579
Amounts owed to customers		135,063	(3,103)
Other liabilities		(3,679)	418
Net cash flows from operating activities before income tax		**34,967**	(43,556)
Income tax paid		(204)	(79)
Net cash (used in)/from operating activities		**34,763**	(43,635)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	10,049	—
Proceeds from sale (purchase) of investment securities		9,368	(4,950)
Sale (purchase) of investments in associates		(350)	(11)
Sale (purchase) of property and intangible assets		128	403
Sale (purchase) of property and intangible assets	10, 11	(8,149)	(2,736)
Net cash (used in)/ from investing activities		**11,046**	(7,292)
Cash flows from financing activities			
Proceeds from issue of share capital		6,019	220
Purchase of treasury shares		(921)	—
Purchase of additional interest by the minority shareholder, net of cash acquired		—	365
Purchase of additional interest in existing subsidiaries, net of cash acquired		—	(490)
Sale of treasury shares		—	48
Proceeds from debt securities issued		190	—
Dividends paid to shareholders of the Bank		(552)	(1)
Net cash (used in)/ from financing activities		**4,736**	142
Effect of exchange rates changes on cash and cash equivalents		379	(1,247)
Net increase/(decrease) in cash and cash equivalents		**50,924**	(52,032)
Cash and cash equivalents, beginning		**57,236**	102,747
Cash and cash equivalents, ending	5	**108,160**	50,715

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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, 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 June 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.

	June 30, 2006, %	December 31, 2005, %
Shareholder		
Bank Austria Creditanstalt	23%	10%
Firebird Avrora Fund	9%	9%
Firebird Republics Fund	9%	9%
Victor Gelovani	8%	12%
East Capital Holding	5%	6%
East Capital Bering Russia Fund	5%	5%
East Capital Bering Ukraine Fund	4%	5%
Firebird Global Master Fund	4%	4%
EBRD	—	12%
Other	33%	28%
Total	**100%**	**100%**

2. BASIS OF PREPARATION

General

These 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 interim 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 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.

Subsidiaries

The interim consolidated financial statements include the following subsidiaries:

June 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 Europace	100.0%	Georgia	26/07/2004	Insurance (non life)	18/10/2005
JSC Intellect Bank	100.0%	Georgia	12/06/1995	Banking	20/02/2006
JSC Galt & Taggart Capital	100.0%	Georgia	24/05/2006	Investment company	—
JSC SB Energy	100.0%	Georgia	09/06/2006	Investment 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
Nautilus LLC	100.0%	Georgia	25/03/2004	Fitness centre	25/04/2006
JSC SB Register	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 BCI Health Centre	60.0%	Georgia	3/10/2005	Healthcare	—

December 31, 2005

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC 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

During the six months ended June 30, 2006, the Group increased its interest in Georgian Leasing Company LLC to 100% and acquired five new subsidiaries, specifically—JSC Intellect Bank, Nautilus LLC, Intertour LLC, Hedji LLC and Tavazi LLC (refer to Note 22 on Business combinations). In addition during the period from December 31, 2005 through June 30, 2006 the Group has incorporated the following five new legal entities for different business purposes: JSC SB Register, Metro Service + LLC, JSC SB Energy, Direct Debit Georgia LLC and JSC Galt & Taggart Capital. A further subsidiary JSC BCI Health Centre, which is immaterial to the Group, has been consolidated for the first time in these interim consolidated financial statements.

Changes in accounting policies

The accounting policies adopted in the preparation of the 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; and

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 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.

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.

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.

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 income statement 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 the 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.

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.

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.

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.

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.

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 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.

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 June 30, 2006 and 2005 were 1.773 Lari and 1.813 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 June 30, 2006 was GEL 23,437 (December 31, 2005—GEL 5,730). More details are provided in Note 11.

5. CASH AND CASH EQUIVALENTS

As of June 30, 2006 and December 31, 2005 cash and cash equivalents comprise:

	2006	2005
Cash on hand	37,421	24,908
Current and deposit accounts with the National Bank of Georgia	16,098	4,273
Current accounts with other credit institutions	13,565	4,475
Time deposits with credit institutions with effective maturity up to 90 days	41,076	23,580
Cash and cash equivalents	**108,160**	57,236

As of June 30, 2006, GEL 29,158 (December 31, 2005—GEL 9,808) 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 606 (December 31, 2005—GEL 538) 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 June 30, 2006, the Group had an equivalent of GEL 1,950 (December 31, 2005—nil) in US Dollars placed as term deposits with Georgian banks.

6. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As of June 30, 2006 and December 31, 2005 amounts due from credit institutions comprise:

	2006	2005
Obligatory reserve with the National Bank of Georgia	39,428	28,977
Time deposits with effective maturity of more than 90 days	2,092	2,099
Inter-bank loans receivable	6,434	2,368
	47,954	33,444
Less—Allowances for impairment (Note 13)	—	(46)
Amounts due from credit institutions	**47,954**	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 not restricted by legislation.

As of June 30, 2006, time deposits and inter-bank loans include GEL 1,116 (December 31, 2005—3,468) placed with JSC ProCredit Bank.

7. LOANS TO CUSTOMERS

As of June 30, 2006 and December 31, 2005 loans have been extended to the following types of customers:

	2006	2005
Private entities	281,851	174,492
Individuals	167,219	114,427
State entities	22,936	25,397
Loans to customers	**472,006**	314,316

As of June 30, 2006, concentration of the Group's investments in outstanding loans receivable from ten largest third party borrowers comprised GEL 66,792 accounting for 14% of gross loan portfolio of the Group (December 31, 2005—GEL 51,197 or 16%). An allowance of GEL 3,784 (December 31, 2005—GEL 3,091) was created against these loans.

As of June 30, 2006 and December 31, 2005 loans are principally issued within Georgia, and their distribution by industry sectors is as follows:

	2006	2005
Trade and services	198,644	144,489
Individuals	167,219	114,427
Construction	36,626	12,668
Transport and communication	14,007	13,646
Mining	7,880	3,667
Agriculture	2,863	1,055
Energy	2,526	208
Other	42,241	24,156
	472,006	314,316
Less—Allowance for loan impairment (Note 13)	(24,123)	(16,940)
Loans to customers, net	**447,883**	297,376

8. NET INVESTMENT IN LEASE

As of June 30, 2006 and December 31, 2005 net investment in lease comprised the following:

	2006	2005
Minimum lease payments receivable	6,511	5,825
Less—Unearned finance lease income	(1,503)	(1,435)
	5,008	4,390
Less—Allowance for impairment	(50)	(76)
Net investment in lease	**4,958**	4,314

As of June 30, 2006, concentration of investments in five largest lessees comprised GEL 2,614 or 53% of total net investment in lease (December 31, 2005—GEL 2,980 or 69%) and finance income received from them as of June 30, 2006 comprised GEL 293 or 36% of total finance income from lease. (December 31, 2005—GEL 137 or 42%)

Future minimum lease payments to be received during the five years after June 30, 2006 and December 31, 2005, are disclosed below:

	2006	2005
Within 1 year	45	177
From 1 to 5 years	5,003	5,326
More than 5 years	1,463	322
Minimum lease payments receivable	**6,511**	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 June 30, 2006 and December 31, 2005 are payable to the Company in the following currencies:

	2006	2005
US Dollars	5,824	5,380
Euros	687	445
Minimum lease payments receivable	**6,511**	5,825

9. INVESTMENT SECURITIES

As of June 30, 2006 and December 31, 2005 available-for-sale securities comprise:

	2006	2005
Corporate bonds	1,229	—
Corporate shares	854	508
Ministry of Finance Treasury Bills	—	7,819
Available-for-sale securities	**2,083**	**8,327**

Nominal interest rates and maturities of these securities are as follows:

	2006		2005	
	%	Maturity	%	Maturity
Corporate bonds	14.00%	2006	—	—
Ministry of Finance Treasury Bills	—	—	12.85%	2006

As of June 30, 2006 and December 31, 2005 held-to-maturity securities comprise:

	2006		2005	
	Carrying value	Nominal value	Carrying value	Nominal value
Corporate bonds	200	228	2,168	2,281
Ministry of Finance Treasury Bills	—	—	111	114
Held-to-maturity securities	**200**	**228**	**2,280**	**2,395**

Nominal interest rates and maturities of these securities are as follows:

	2006		2005	
	%	Maturity	%	Maturity
Corporate bonds	14.00%	2006	14.00%	2006
Ministry of Finance Treasury Bills	—	—	13.60%	2006

In 2006 group has sold corporate bonds of a local commercial bank, previously classified as Securities held-to-maturity in amount of 661 GEL. As a result, remaining balance of these corporate bonds in amount of 1,130 GEL has been classified as available-for-sale securities in 2006.

10. PROPERTY AND EQUIPMENT

Movements in property and equipment during the six months of 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)	4,690	998	771	125	236	—	6,820
Additions	3,574	1,051	1,605	6	102	1,663	8,001
Disposals	(63)	(104)	(1,889)	(249)	(6)	(2)	(2,313)
Transfers	313	—	—	—	195	(508)	—
June 30, 2006	**30,776**	**13,299**	**9,123**	**1,205**	**1,841**	**1,522**	**57,766**
Accumulated impairment							
June 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 year	276	594	904	129	150	—	2,053
Disposals	(6)	(93)	(1,891)	(243)	(6)	—	(2,239)
June 30, 2006	**989**	**3,555**	**3,100**	**662**	**484**	**—**	**8,790**
Net book value							
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**
June 30, 2006	**29,320**	**9,744**	**6,023**	**543**	**1,357**	**1,522**	**48,509**

Movements in property and equipment during six months of 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	871	316	654	6	76	469	2,392
Disposals	(182)	(6)	(1)	(66)	(15)	(3)	(273)
Transfers	193	(176)	58	106	(130)	(51)	—
June 30, 2005	**18,338**	**8,159**	**6,622**	**1,295**	**929**	**415**	**35,758**
Accumulated impairment							
December 31, 2004 and June 30, 2005	**467**	**—**	**—**	**—**	**—**		**467**
Accumulated depreciation							
December 31, 2004	320	2,197	2,715	575	206	—	6,013
Charge for the year	164	401	634	116	66	—	1,381
Disposals	(5)	(3)	(0)	(27)	(14)	—	(49)
Transfers	—	(36)	—	—	—	—	(36)
June 30, 2005	**479**	**2,559**	**3,349**	**664**	**258**	**—**	**7,309**
Net book value							
December 31, 2004	16,669	5,828	3,196	674	792	—	27,159
June 30, 2005	**17,392**	**5,600**	**3,273**	**631**	**671**	**415**	**27,982**

During the six month ended June 30, 2006 Group wrote off fully depreciated assets in amount of GEL 2,230. From this amount GEL 1,889 represents computers & equipment, GEL 242 vehicles, GEL 6 leasehold improvements and GEL 93 furniture & fixtures.

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 as of June 30, 2006 and December 31, 2005:

	2006	2005
Cost	27,281	19,017
Accumulated depreciation and impairment	2,801	2,528
Net carrying amount	**24,480**	16,489

11. INTANGIBLE ASSETS

Movements in intangible assets during six months of 2006 were as follows:

	Goodwill	Computer software	Total
Cost			
December 31, 2005	**5,730**	**4,144**	**9,874**
Acquisition through business combinations (Note 22)	17,707	191	17,898
Additions	—	148	148
Disposals	—	—	—
June 30, 2006	**23,437**	**4,483**	**27,920**
Accumulated amortization			
December 31, 2005	—	**2,189**	**2,189**
Charge for amortization	—	477	477
Disposals	—	—	—
June 30, 2006	**—**	**2,666**	**2,666**
Net book value:			
December 31, 2005	**5,730**	**1,955**	**7,685**
June 30, 2006	**23,437**	**1,817**	**25,254**

Movements in intangible assets during six months of 2005 were as follows:

	Goodwill	Computer software	Total
Cost			
December 31, 2004	4,389	3,462	7,851
Additions	81	344	425
Disposals	—	—	—
June 30, 2005	4,470	3,806	8,276
Impairment charge	237	11	248
Accumulated amortization			
December 31, 2004	—	1,565	1,565
Charge for the year	—	385	385
Transfers	—	36	36
June 30, 2005	—	1,986	1,986
Net book value			
December 31, 2004	4,389	1,897	6,286
June 30, 2005	4,233	1,809	6,042

As of June 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”

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.

As of June 30, 2006 and December 31, 2005 carrying amount of goodwill (less impairment) allocated to each of the cash-generating units:

	WACC applied for impairment	Carrying amount of goodwill	
		2006	2005
JSC Bank of Georgia	11%	19,235	1,892
JSC British Caucasus Insurance Company	17%	2,341	2,341
Nautilus LLC	25%	89	—
Intertour LLC	23%	275	—
JSC Europace	22%	1,497	1,497
Total		**23,437**	5,730

12. TAXATION

As of June 30 the corporate income tax expense comprises:

	2006	2005
Current tax charge	2,580	16
Deferred tax charge (benefit)	346	577
Current tax charge of prior period	285	—
Income tax expense (gain)	**3,211**	593

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%.

The effective income tax rate differs from the statutory income tax rates. As of June 30 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2006	2005
Income (loss) before taxation	**14,237**	6,762
Statutory tax rate	20%	20%
Theoretical income tax expense (gain) at the statutory rate	**2,847**	1,352
State securities at lower tax rate	(23)	(138)
Permanent differences	(25)	(746)
Change in unrecognized deferred tax assets	7	22
Non-tax-deductible expenses:		
—impairment of intangible assets	—	48
—other impairment losses	—	10
—entertainment	46	43
—fines	10	—
—other	64	2
Tax charge of prior periods	285	—
Income tax expense	**3,211**	593

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 as of June 30, 2006 and December 31, 2005 comprise:

	2006	2005
Tax effect of deductible temporary differences:		
Prepayments	403	—
Tax loss carried forward	70	446
Intangible assets	72	119
Allowances for impairment and provisions for other losses	—	59
Property and equipment	—	30
Net investment in lease	—	12
Other assets	116	—
	661	666
Unrecognized deferred tax assets	(70)	(63)
Deferred tax asset	**591**	603
Tax effect of taxable temporary differences:		
Property and equipment	1,347	1,638
Amounts owed to credit institutions	775	
Loans to customers	580	665
Allowances for receivables	72	124
Other liabilities	250	185
Other assets	—	78
Deferred tax liability	**3,024**	2,690
Net deferred tax assets (liability)	**(2,433)**	(2,087)

As of June 30, 2006 and December 31, 2005 tax assets and liabilities consist of the following:

	2006	2005
Current tax assets	225	2,570
Deferred tax assets	84	—
Tax assets	**309**	2,570
Current tax liabilities	308	—
Deferred tax liabilities	2,517	2,087
Tax liabilities	**2,825**	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)	(46)	7,131	7,085
Write-offs	—	(243)	(243)
Recoveries	—	295	295
June 30, 2006	**—**	**24,123**	**24,123**

	Due from credit institutions	Loans to customers	Total
December 31, 2004	47	19,081	19,128
Charge (reversal)	(47)	3,669	3,622
Write-offs	—	(109)	(109)
Recoveries	—	1,027	1,027
June 30, 2005	—	23,668	23,668

Movements in allowances for other assets and provisions were as follows:

	Investments in associates	Other assets	Guarantees and commitments	Total
December 31, 2005	**279**	**919**	**975**	**2,173**
Charge (reversal)	(51)	(130)	(975)	(1,155)
Write-offs	—	(57)	—	(57)
Recoveries	—	36	—	36
June 30, 2006	**228**	**769**	**—**	**997**

	Investments in associates	Other assets	Guarantees and commitments	Total
December 31, 2004	103	1,303	971	2,377
Charge (reversal)	—	41	(596)	(555)
Write-offs	—	(84)	(167)	(251)
Recoveries	—	10	—	10
June 30, 2005	103	1,270	208	1,581

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 June 30, 2006 and December 31, 2005 other assets comprise:

	2006	2005
Prepayment for purchase of fixed assets	10,255	1,064
Insurance premiums receivable	5,146	3,300
Receivable from money transfers	3,369	2,184
Foreclosed assets	2,813	2,474
Operating taxes receivable	1,158	613
Investment in associates, net	922	520
Lease receivable	528	504
Settlements on operations with securities	686	536
Other	2,891	838
	27,768	12,033
Less—Allowance for impairment of other assets (Note 13)	(769)	(919)
Other assets	**26,999**	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.

Investment in associates includes allowance for impairment in value of amount of GEL 228 (December 31, 2005—GEL 279), (Note 13).

As of June 30, 2006 and December 31, 2005 other liabilities comprise:

	2006	2005
Creditors	8,506	3,857
Accruals for employee compensation	3,491	4,967
Reinsurance accounts payable	3,007	1,680
Unearned premiums reserve	2,866	2,154
Amounts payable for acquisitions	841	841
Other taxes payable	756	555
Insurance claims reserves	583	545
Dividends payable	341	115
Fines and penalties payable	—	671
Other	946	693
Other liabilities	**21,337**	16,078

15. AMOUNTS OWED TO CREDIT INSTITUTIONS

As of June 30, 2006 and December 31, 2005 amounts owed to credit institutions comprise:

	2006	2005
Current accounts	365	144
Time deposits and loans	109,383	37,007
Borrowings from international financial institutions	28,560	41,722
Amounts owed to credit institutions	**138,308**	78,873

During six months of 2006, the Group received short-term funds from Georgian banks in different currencies. As of June 30, 2006, the Group had an equivalent of GEL 12,698 (December 31, 2005—nil) in US Dollars received as deposits from Georgian banks.

During the six month of 2006, the group has obtained 18 month facility from Citibank N.A. in amount of USD 25,000 (GEL 44,325) and 10 year facility from World Business Capital (WBC) in amount of USD 10,000 (GEL 17,730). The loans were granted on market terms.

As of June 30, 2006 and December 31, 2005, borrowings from international financial institutions included borrowings from DEG, IFC, EBRD, BSTDB, and AKA. 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).

Borrowing agreements contain various covenants, which establish limits for capital adequacy, liquidity, currency position, credit exposures and other measurements. As of June 30, 2006, the Group was not in compliance with certain covenants related to its borrowings from EBRD, BSTDB, DEG, IFC and WBC. Subsequent to June 30, 2006 the Group obtained compliance waivers from the relevant institutions which applied retroactively to June 30, 2006.

16. AMOUNTS OWED TO CUSTOMERS

As of June 30, 2006 and December 31, 2005 amounts owed to customers include the following:

	2006	2005
Current accounts	258,494	137,296
Time deposits	186,395	132,656
Amounts owed to customers	**444,889**	269,952
Held as security against letters of credit	**1,370**	652
Held as security against guarantees	**6,217**	1,422

As of June 30, 2006, amounts owed to customers of GEL 106,887 (24%) were due to the ten largest third party customers (December 31, 2005—GEL 35,577 (13%)).

As of June 30, 2006 and December 31, 2005 amounts owed to customers comprise the following:

	2006	2005
Individuals	196,600	154,564
Private enterprises	168,488	86,123
State and budgetary organizations	77,464	27,456
Employees	2,337	1,809
Amounts owed to customers	**444,889**	269,952

As of June 30, 2006 and December 31, 2005 customer accounts by industry sector is as follows:

	2006	2005
Individuals	198,937	156,373
Trade and services	66,253	38,262
Transport and communication	52,064	17,396
Mining	16,644	6,974
Construction	13,485	8,018
Energy	6,604	14,044
Agriculture	536	343
Other	90,366	28,542
Amounts owed to customers	**444,889**	269,952

17. DEBT SECURITIES ISSUED

As of June 30, 2006 and December 31, 2005 debt securities issued consisted of the following:

	2006	2005
Promissory notes issued	1,333	1,143
Debt securities issued	**1,333**	**1,143**

Interest-bearing callable bonds that were issued by the Group as of June 30, 2006 had an aggregate nominal value of GEL 1,250 and mature in September 2007. (December 31, 2005—GEL 1,126, 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 June 30, 2006, authorized share capital comprised 19,783,409 common shares, of which 15,537,971 were issued and fully paid (December 31, 2005—19,783,409 common shares, of which 14,728,784 were issued and fully paid, June 30, 2005—14,783,409 common shares, of which 11,465,214 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of June 30, 2006 and 2005 are described below.

Movements for the six month ended June 30, 2006 in shares outstanding, issued and fully paid were as follows:

	Number of shares Ordinary	Amount of shares Ordinary
December 31, 2005	**14,728,784**	**14,729**
Issuance of shares	809,187	809
June 30, 2006	**15,537,971**	**15,538**

Movements for the six month ended June 30, 2005 in shares outstanding, issued and fully paid were as follows:

	Number of shares Ordinary	Amount of shares Ordinary
December 31, 2004	11,273,386	11,273
Issuance of shares	191,828	192
June 30, 2005	11,465,214	11,465

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 June 30, 2006, net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period were GEL 11,121 and 15,223,447, respectively amounting to basic and diluted earnings per share of GEL 0.00073.(2005—GEL 6,288 and 11,362,987, respectively and EPS of GEL 0.00055).

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 June 30, 2006, treasury shares of GEL 155 at par value and share premium of GEL 1,147 comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market. (2005—treasury shares GEL 62 at par and share premium GEL 180).

During the six month ended June 30, 2006 no shares were granted as management compensation due to expected public offering (refer Note 27). 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. (June 30, 2005—shares of GEL 100 at par value and share premium of GEL 230).

During the six months ended June 30, 2006 at the Shareholders' Meeting in April 2006, the Group declared dividends of GEL 776 in respect of 2005 being GEL 0.00005 per share. (March, 2004—GEL 2,500 in respect of 2003 being GEL 0.00025 per share).

Movements for the six month ended June 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	(56)	(56)
As of June 30, 2006	**5,313**	**5,313**

Movements for the six month ended June 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	(56)	(56)
As of June 30, 2005	5,436	5,436

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 June 30, 2006 and December 31, 2005 the Group's financial commitments and contingencies comprised the following:

	2006	2005
Credit related commitments		
Undrawn loan commitments	22,130	15,751
Letters of credit	55,423	20,888
Guarantees	56,686	34,777
	134,239	71,416
Operating lease commitments		
Not later than 1 year	1,631	1,238
Later than 1 year but not later than 5 years	4,022	3,323
Later than 5 years	945	1,052
	6,598	5,613
Capital expenditure commitments	**392**	216
Less—Provisions	—	(975)
Less—Cash held as security against letters of credit and guarantees	(7,587)	(2,073)
Financial commitments and contingencies	**133,642**	74,197

Insurance

The Group's premises are insured for GEL 31,586 (December 31, 2005—GEL 23,142). As of June 30, 2006, the Group had Bankers Blanket Bond insurance and Directors and Officers liability insurance coverage.

20. NET FEES AND COMMISSION INCOME

During the six month ended June 30 net fees and commission income comprises:

	2006	2005
Settlements operations	6,517	4,083
Guarantees and letters of credit	2,167	1,251
Cash collection	1,782	1,205
Brokerage service fees	766	162
Currency conversion operations	352	375
Advisory	71	26
Other	257	10
Fees and commission income	**11,912**	7,112
Settlements operations	1,005	482
Guarantees and letters of credit	580	330
Cash operations	55	132
Currency conversion operations	25	29
Other	—	92
Fees and commission expense	**1,665**	1,065
Net fees and commission income	**10,247**	6,047

21. SALARIES AND ADMINISTRATIVE EXPENSES

During the six month ended June 30 salaries and other employee benefits, as well as administrative expenses comprise:

	2006	2005
Salaries and bonuses	11,302	9,295
Social security costs	2,049	1,712
Salaries and other employee benefits	**13,351**	11,007
Occupancy and rent	1,277	933
Security	737	600
Marketing and advertising	1,182	568
Communications	675	412
Operating taxes	319	582
Legal and other professional services	1,008	223
Office supplies	724	418
Repair and maintenance	559	344
Personnel training and recruitment	200	411
Travel expenses	503	136
Corporate hospitality and entertainment	168	77
Banking services	206	69
Insurance	308	164
Other	388	171
Administrative expenses	**8,254**	5,108

22. BUSINESS COMBINATION

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations occurred during the six months ended June 30, 2006 (i.e. Intellect Bank, Intertour LLC and 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)	6,810	5,303
Intangible assets (Note 11)	191	191
Capitalization of the gain on initial recognition of the facility received	1,960	—
Other assets	1,706	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	(6)	—
Goodwill arising on acquisition (Note 11)	17,707	—
Consideration paid	**319**	**—**

The net cash outflow on acquisitions was as follows:

	2006
Cash paid	319
Less: cash acquired with the subsidiary	10,373
Net cash outflow (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 11,176 and the total revenue would have been GEL 115,960. The profit of the acquired subsidiary consolidated since the acquisition date was only from Intertour LLC and amounted of GEL 38 of income.

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 (Note 10)	2,796	2,214
Intangible assets (Note 11)	190	190
Capitalization of the gain on initial recognition of the facility received	1,960	—
Other assets	1,514	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 (Note 11)	17,343	—
Consideration paid	—	—

The net cash outflow on acquisition was as follows:

	2006
Cash paid	—
Less: cash acquired with the subsidiary	10,312
Net cash outflow (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 (10,983) and the total revenue would have been GEL 38,705.

Intertour LLC

On April 25, 2006 the Group acquired a controlling interest (87.5%) in Intertour LLC—tourist 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 (Note 10)	22	22
Intangible assets (Note 11)	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 (Note 11)	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 (inflow)	**258**

If the combination had taken place at the beginning of the period, the net income of the Group would have been GEL 11,103 and the total revenue would have been GEL 38,623. The profit of the acquired subsidiary was consolidated since the acquisition date and amounted of GEL 38 of income.

Nautilus LLC

On March 14, 2006 the Group obtained a controlling interest (100%) in 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 “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 (Note 10)	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 (Note 11)	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 outflow (inflow)	—

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 11,056 and the total revenue would have been GEL 38,632.

During six months ended June 30, 2006 Group acquired two small brokerage companies namely Heji LLC and Tavazi LLC. These companies were acquired by Insurance Company BCI and Georgian Leasing Company respectively.

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 six months of 2006. The provisional goodwill on acquisition amounted to GEL 0.4 as of June 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.4.

Tavazi LLC (company) was acquired (100%) on April 20, 2006 by the Group for GEL 2.7. Fair value of the assets of the company estimated provisionally as of the acquisition date amounted to GEL 12 (GEL 10 represents fixed assets) while liabilities to GEL 2. Company did not conduct any operations during the six months of 2006. The provisional negative goodwill on acquisition amounted to GEL 7.3 as of June 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.1.

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.

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	June 30, 2006				December 31, 2005			
	Georgia	OECD	CIS and other foreign banks	Total	Georgia	OECD	CIS and other foreign banks	Total
Assets:								
Cash and cash equivalents	75,751	29,169	3,240	108,160	46,787	9,291	1,158	57,236
Due from credit institutions	47,278	676	—	47,954	32,710	688	—	33,398
Loans to customers	447,883	—	—	447,883	297,376	—	—	297,376
Net investments in lease	4,958	—	—	4,958	4,314	—	—	4,314
Investment securities:								
—available-for-sale	2,083	—	—	2,083	8,327	—	—	8,327
—held-to-maturity	200	—	—	200	2,280	—	—	2,280
All other assets	103,277	887	181	104,345	57,102	171	366	57,639
	681,430	**30,732**	**3,421**	**715,583**	448,896	10,150	1,524	460,570
Liabilities:								
Owed to credit institutions	42,430	95,878	—	138,308	29,316	49,557	—	78,873
Owed to customers	444,202	687	—	444,889	269,952	—	—	269,952
Debt securities issued	1,333	—	—	1,333	1,143	—	—	1,143
All other liabilities	23,200	962	—	24,162	15,720	3,196	224	19,140
	511,165	**97,527**	**—**	**608,692**	316,131	52,753	224	369,108
Net balance sheet position	**170,265**	**(66,795)**	**3,421**	**106,891**	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.

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:

	June 30, 2006				December 31, 2005			
	GEL	Freely convertible	Non convertible	Total	GEL	Freely convertible	Non convertible	Total
Assets:								
Cash and cash equivalents	90,251	17,437	472	108,160	24,086	31,671	1,479	57,236
Due from credit institutions	7,358	39,812	784	47,954	32,402	957	39	33,398
Loans to customers	121,899	325,984	—	447,883	85,189	212,187	—	297,376
Net investment in lease	—	4,958	—	4,958	—	4,314	—	4,314
Investment securities:								
—available-for-sale	2,083	—	—	2,083	8,327	—	—	8,327
—held-to-maturity	200	—	—	200	2,280	—	—	2,280
All other assets	91,582	12,627	136	104,345	52,472	5,083	84	57,639
	313,373	**400,818**	**1,392**	**715,583**	**204,756**	**254,212**	**1,602**	**460,570**
Liabilities:								
Owed to credit institutions	15,537	122,771	—	138,308	5,023	73,823	27	78,873
Owed to customers	149,389	295,438	62	444,889	76,495	193,416	41	269,952
Debt securities issued	1,333	—	—	1,333	1,143	—	—	1,143
All other liabilities	13,907	9,950	305	24,162	14,227	4,913	—	19,140
	180,166	**427,177**	**1,349**	**608,692**	**96,888**	**272,152**	**68**	**369,108**
Net balance sheet position	**133,207**	**(26,359)**	**43**	**106,891**	**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.

Interest rate risk

The table below summarizes the Group's exposure to interest rate risk as at June 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.

	June 30, 2006						
	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	54,661	52,076	1,423	—	—	—	108,160
Due from credit institutions	214	28,187	3,658	11,546	4,211	138	47,954
Loans to customers	—	47,027	55,499	132,871	162,086	50,400	447,883
Net investment in lease	—	—	—	54	3,926	978	4,958
Investment securities:							
—available-for-sale	588	—	—	1,229	3	263	2,083
—held-to-maturity	—	—	—	200	—	—	200
	55,463	**127,290**	**60,580**	**145,900**	**170,226**	**51,779**	**611,238**
Liabilities:							
Owed to credit institutions	365	3,811	70,001	30,114	32,188	1,829	138,308
Owed to customers	214,139	87,384	34,018	68,411	39,384	1,553	444,889
Debt securities issued	—	—	—	—	1,333	—	1,333
	214,504	**91,195**	**104,019**	**98,525**	**72,905**	**3,382**	**584,530**
Net position	**(159,041)**	**36,095**	**(43,439)**	**47,375**	**97,321**	**48,397**	**26,708**

	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**

As of June 30, 2006 and December 31, 2005 the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2006		2005	
	GEL	**Foreign currencies**	**GEL**	**Foreign currencies**
Due from credit institutions	**9%**	**4%**	8%	2%
Investment securities:				
—held-to-maturity	**14%**	**—**	14%	—
—Available-for-sale	**14%**	**—**	13%	—
Loans to customers	**19%**	**18%**	21%	15%
Owed to credit institutions	**6%**	**9%**	10%	7%
Owed to customers	**8%**	**9%**	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.

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.

	June 30, 2006							
	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	54,661	52,076	1,423	—	—	—	—	108,160
Due from credit institutions	39,642	1,465	643	5,483	721	—	—	47,954
Loans to customers	—	47,027	55,499	132,871	162,086	35,662	14,738	447,883
Net investment in lease	—	—	—	54	3,926	978	—	4,958
Investment securities:								
—available-for-sale	588	—	—	1,229	3	263	—	2,083
—held-to-maturity	0	—	—	200	—	—	—	200
	94,891	**100,568**	**57,565**	**139,837**	**166,736**	**36,903**	**14,738**	**611,238**
Liabilities:								
Owed to credit institutions	37,336	3,457	733	6,572	88,381	1,829	—	138,308
Owed to customers	274,654	11,800	41,503	74,932	40,447	1,553	—	444,889
Debt securities issued	—	—	—	—	1,333	—	—	1,333
	311,990	**15,257**	**42,236**	**81,504**	**130,161**	**3,382**	**—**	**584,530**
Net position	**(217,099)**	**85,311**	**15,329**	**58,333**	**36,575**	**33,521**	**14,738**	**26,708**
Accumulated gap	**(217,099)**	**(131,788)**	**(116,459)**	**(58,126)**	**(21,551)**	**11,970**	**26,708**	

	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	

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 Bank was in breach of several debt covenants as of June 30, 2006. Subsequent to June 30, 2006 the Bank received compliance waivers from the respective financial institutions. As the compliance waivers were received after June 30, 2006 and as required by IAS 1, loans from financial institutions of GEL 29,539 (December 31, 2005—GEL 16,431) with contractual maturities ranging from 13 to 84 months (December 31, 2005—13—57 months) were presented in on demand category. As of June 30, 2006, 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 28,587. (December 31, 2005—GEL 23,932)

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 August 2006, the Group achieved agreement with Merrill Lynch to borrow funds of USD 25.0 million (GEL 44,325) with maturity of one years;
- In August 2006, the Group achieved agreement with Thames River Capital on subordinated loan facility in amount of USD 5.0 million (GEL 8,865) with maturity of ten years;
- In September 2006, the Group has entered into a USD 25 million (GEL 44,325) ten-year convertible subordinated loan facility agreement 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 June 30, 2006, deposits amounted to GEL 444,889 (December 31, 2005—GEL 269,952) and represented 73% (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 June 30, 2006, amounts owed to other credit institutions accounted for GEL 138,308 (December 31, 2005—GEL 78,873) and represented 23% (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 out present requirements.

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 June 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 June 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 June 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.

	2006		**2005**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Amounts due from credit institutions	**47,901**	**47,901**	33,398	33,398
Loans to customers	**447,883**	**447,883**	297,376	297,376
Investment securities held-to-maturity	**242**	**242**	2,280	2,280
Financial liabilities				
Due to credit institutions	**138,308**	**138,308**	78,873	78,873
Due to customers	**444,889**	**444,889**	269,952	269,952
Debt securities issued	**1,333**	**1,333**	1,143	1,143

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:

	June 30, 2006				June 30, 2005			
	Shareholders	Entities under common control	Associates	Top management personnel	Shareholders	Entities under common control	Associates	Top management personnel
Loans outstanding as of January 1, gross	**—**	**16,733**	**3,272**	**1,143**	—	6,190	966	652
Loans granted during the period	—	17,038	15,689	2,012	—	1,069	1,528	510
Loan repayments during the period	—	(29,829)	(14,797)	(2,840)	—	(4,083)	(762)	(332)
Loans outstanding as of June 30, gross	**—**	**3,942**	**4,164**	**315**	—	3,176	1,732	830
Less: Allowance for impairment as of June 30	—	(37)	(137)	(10)	—	(77)	(57)	(27)
Loans outstanding as of June 30, net		**3,905**	**4,027**	**305**		3,099	1,675	803
Deposits as of January 1	**—**	**252**	**1,751**	**113**	—	2	1,837	12
Deposits received during the period	—	66,587	21,373	25,906	34,564	—	13,031	2,531
Deposits repaid during the period	—	62,344	20,758	23,683	23,448	6	13,777	1,667
Deposits as of June 30	**—**	**4,495**	**2,366**	**2,336**	11,117	8	1,091	876
Interest income on loans	—	3,686	628	103	—	1,177	147	57
Impairment of loans	—	(842)	43	(17)	—	—	—	—
Interest expense on deposits	—	—	65	54	—	—	33	25
Commitments and guarantees received	—	12	—	—	—	—	—	—
Fee and commission income	—	148	56	23	—	—	60	2

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.

As of June 30 compensation of top management personnel comprised the following:

	2006	2005
Salaries and other short-term benefits	1,223	755
Share based compensation	275	742
Social security costs	290	298
Total top management compensation	**1,788**	1,795

During the six month period the Group provided its top management with share based compensation. The total amount of compensation under that plan during the six month period ended June 30, 2006 totaled to GEL 275 or 83,334 ordinary shares of the Bank. (June 30, 2005—GEL 742 or 225,001 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 100,000 shares are fully vested at June 30, 2005.

26. CAPITAL ADEQUACY

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of June 30, 2006 the Bank's capital adequacy ratio on this basis was 11%. (December 31, 2005—the Bank's capital adequacy ratio on this basis exceeded the statutory minimum) NBG has not imposed any fines or restrictions with regard to the capital adequacy ratio non-compliance from the Group as of June 30, 2006 as it has granted a waiver for all breaches of the limits and prudential ratios arising due to the acquisition of JSC "Intellect Bank" for the 12 month period from the acquisition date. The Group has set a plan to improve its capital adequacy position through issuance of new shares by the end of September, 2006.

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 June 30, 2006 and December 31, 2005.

27. SUBSEQUENT EVENTS

Anticipated listing on London Stock Exchange

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 & McKenzie 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.

Funding obtained

On August 4, 2006 the Group obtained a credit facility from Merrill Lynch. A 25,000 thousand US Dollar loan was granted to the Bank on market terms, with the contractual maturity of 12 months. Additionally on August 11, 2006, the Group obtained a 5,000 thousand US Dollar, 10-year subordinated loan facility from Thames River Capital on market terms.

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.

Based on figures from the Economist Intelligence Unit (the "EIU"), the population of Georgia was approximately 4.5 million as of December 2005. 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'etat* 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.

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 MPs 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.

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 ("IDPs") 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 central 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 IDPs 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.

The Political System

The President and Government

The constitution 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, 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. 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 are due to be held in April 2009. On 19 October 2006, the President of Georgia proposed an initiative to Parliament to move the presidential elections forward to the autumn of 2008, the same time as the parliamentary elections. Such proposal was suggested to avoid the need to run election campaigns twice in one year.

In 2004, following the Rose Revolution, the Georgian constitution 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 hold 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 30 June 2006, Georgia was a party to approximately 300 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 December 2006. Georgia’s annual gas consumption has been estimated at approximately 2 billion cubic metres per year. Although the purchase price for Russian gas has not yet been set for 2007, it is possible that the price will increase from the current US$110 per thousand cubic metres. On 3 November 2006, Russian gas supplier Gazprom announced that it planned to charge Georgia US$230 per thousand cubic metres of natural gas supplied. Georgia has indicated that it will not accept the newly proposed price. The price remains subject to negotiation and a final agreement has not been reached.

Georgia imported approximately 600 million kw/h of electricity in 2005, of which approximately 53 percent 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 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 spring 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.

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 (other than cargo transit) 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 Georgia and Russia met in Moscow in the first meeting of high-level officials since the commencement of the sanctions. As of the date of this Prospectus, Russia has not indicated when the above-described sanctions will be lifted.

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 (the "GTEP"). 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 ENP 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 "Generalised System of Preferences Plus" ("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 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 Uzbekistan, the latter 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.

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% of GDP in 2005 compared with approximately 35% of GDP in 1995. Georgia's relatively small industrial sector, which accounted for approximately 16% 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 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%. 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 six months ended 30 June 2006, the real GDP growth rate was 7.8%. Certain members of the government have estimated in recent media interviews the aggregate potential impact of the recent Russian sanctions will amount to 1% 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% 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 to 0.1% of GDP (GEL 9 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 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 years indicated:

	2003	2004	2005
Economic Activity			
Nominal GDP (US$ million)(3)	3,995	5,166	6,401
Nominal GDP (GEL million(1)	8,582	9,846	11,629
Real GDP Growth (y-o-y; %)(1)(4)	11.1	5.9	9.3
GDP per Capita (US$)(5)	877	1,139	1.416
Population (e-o-p; million)	4.555	4.535	5.521
Unemployment (%)(1)	11.5	12.6	13.8
Inflation			
CPI (year-end; %)(1)(7)	7.0	7.5	6.2
External Balance			
Total Exports (FOB; US$ million)(2)	1,273	1,631	2,168
Total Imports (CIF; US$ million)(2)	1,856	2,491	3,312
Trade Balance (US$ million)(2)	(636)	(916)	(1,214)
Current Account Balance (US$ million)(2)	(371)	(348)	(693)
As % of GDP(8)	(9.3)	(6.7)	(10.8)
Capital Account Balance (US$ million)(2)	378	524	790
Net FDI (US$ million)(2)	336	490	539
As % of GDP(9)	8.4	9.5	8.4
Gross FX Reserves (including Gold and SDRs; US$ million)(1)	192	384	475
Import Cover (Gross Reserves in Days of Imports)(1)	38	56	52
Fiscal Balance and Debt Indicators			
State Budget Reserves (GEL million)(1)	932	1,773	2,608
State Budget Expenditures (GEL million)(1)	1,119	1,924	2,617
Budget Balance (GEL million)(1)	(186)	(151)	(9)
As % of GDP(10)	(2.2)	(1.5)	(0.1)
Foreign Debt (US$ million)(1)	1,754	1,762	1,651
Foreign Debt (% of GDP)(11)	43.9	34.1	25.8
Exchange Rate			
GEL: USD (average)(1)	2.15	1.92	1.81

Source: Department of Statistics of Georgia; National Bank of Georgia.

Notes:

(1) Source: Ministry of Finance of Georgia.

(2) Source: Ministry of Economic Development of Georgia.

(3) Calculated as nominal GDP in GEL divided by average exchange rate GEL:US$.

(4) The real GDP percentage change for a particular year indicates the percentage change from the previous year, where 0 = 0% growth.
(5) Calculated as nominal GDP in U.S. dollars divided by population in millions.
(6) Average CPI for a particular year indicates the percentage change in CPI (average) in local currency over the previous year.
(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 budget balance in GEL divided by nominal GDP in GEL.
(11) 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 US$192 million in 2003 to US$475 million in 2005. This level of foreign reserves is equal to approximately two months of imports.

International Trade

Georgia's major trade partners are Russia, Turkey, Azerbaijan, Ukraine, Turkmenistan, and Germany. 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% of this capacity is used. The Georgian economy is one of the least energy-intensive in the CIS, measured in terms of energy consumption per unit of GDP.

The following tables set out Georgia's exports and imports by product and exports and imports by country.

Export by product

	30 June 2006	
	(US$ millions)	(percentage)
Ferrous Metals	130.0	16.0%
Beverages, Spirits and Vinegar	123.1	15.2%
Vessels and Aircraft	105.3	13.0%
Ferrous and Non-Ferrous Ores	59.7	7.3%
Vegetables	53.8	6.6%
Gems and Precious Stones	44.2	5.4%
Equipment and Rail Cars	43.8	5.4%
Vehicles and Their Parts	35.2	4.3%
Fertilisers	32.8	4.0%
Cement	20.7	2.5%
Copper	20.3	2.5%
Oil and Gas	18.2	2.2%
Other	125.1	15.4%
Total	**812.2**	**100.0%**

Source: Department of Statistics of Georgia.

Export by countries

	30 June 2006	
	(US$ millions)	(percentage)
Turkmenistan	121.3	14.9%
Russia	93.2	11.5%
Turkey	77.0	9.5%
Armenia	61.4	7.6%
Azerbaijan	59.6	7.3%
Bulgaria	54.9	6.8%
United States	48.6	6.0%
Ukraine	46.2	5.7%
Other	249.9	30.8%
Total Export	**812.2**	**100.0%**

Source: Department of Statistics of Georgia.

Import by product

	30 June 2006	
	(US$ millions)	(percentage)
Oil and Gas	383.3	21.2%
Mechanical Equipment and Electrical Machinery	300.2	16.6%
Vehicles	204.3	11.3%
Cereals	74.5	4.1%
Pharmaceuticals	68.9	3.8%
Footwear and Textiles	53.1	2.9%
Plastics	46.2	2.6%
Arms and Ammunition	41.6	2.3%
Ferrous Metal Products	40.6	2.2%
Sugar	36.6	2.0%
Ferrous Metals	34.5	1.9%
Other	521.3	28.9%
Total	**1,804.9**	**100.0%**

Source: Department of Statistics of Georgia.

Import by countries

	30 June 2006	
	(US$ millions)	(percentage)
Russia	308.7	17.1%
Turkey	227.6	12.6%
Germany	183.2	10.1%
Azerbaijan	152.2	8.4%
Ukraine	140.8	7.8%
Bulgaria	68.1	3.8%
Turkmenistan	65.8	3.6%
United States	65.4	3.6%
France	50.3	2.8%
United Arab Emirates	49.9	2.8%
Other	493.0	27.3%
Total Import	**1,804.9**	**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% to 5% in 2007 and the elimination of all import tariffs (except import 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 are planned to begin in autumn 2006, are expected to 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 US$336 million, US$490 million, and US$539 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 US$248 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.

Wages and Income

The average monthly wage in Georgia has grown rapidly over the last few years and reached GEL 118 in 2004 as compared to GEL 84 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 US$1,416 in 2005, the IMF estimated that, on a PPP-adjusted basis, GDP per capita in 2005 was US$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%) 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 US$230 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 US$93 million, the sale of the Rustavi metallurgical plant for US$27 million and the sale of Madneuli, a producer of copper and gold, for US$36 million (excluding the payment of debt to the state of US$16 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 US$186 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 US$312 million (compared with the aggregate reserve price of US$132 million). Energo-Pro and the government are in the process of negotiating definitive agreements with regard to this transaction. In May 2006 the government sold the United Telecommunication Company of Georgia ("UTCG") to a Kazakh-Georgian consortium for US$92 million, equivalent to nine times 2005 EBITDA of

UTCG. Also in May 2006, the government sold Tbilgazi, the gas distribution company of Tbilisi, to the Kazakh state-owned KazTransGaz Company, for US$12.5 million and an investment commitment of over US$80 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 US$90 million. In addition, Kazakh investors have purchased from the state approximately 20 hotels on the Black Sea Shore.

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 to mitigate the effects of many years of mismanagement prior to their sale), 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% to 20% were unified under a single flat rate of 12% effective from January 2005; the payroll tax rate was reduced from 33% to 20%; and the value-added tax rate was reduced from 20% to 18%, the lowest rate among CIS countries. 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%.

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