Annual Report 06

საქართველოს ბანკი
BANK OF GEORGIA

CONTENTS

1903

- One of the first banks in the country

1920's

- The bank is nationalised following the loss of independence

1994

- Bank of Georgia formed as a Joint Stock Company as a result of privatization of the former State Bank Binsotsbanki

1998

- EBRD becomes a shareholder

1998-2004

Established itself as one of the main players during the banking sector transformation stage

Assets
US$ 66 mln
MCap
US$ 15 mln

2001

- Lists on the Georgian Stock Exchange
- Reporting in IAS begins
- DEG becomes a shareholder

Assets
US$ 111 mln
MCap
US$ 10 mln

2003

- Secures credit lines from IFC and EBRD

Assets
US$ 199 mln
MCap
US$ 35 mln

2004

- **New management team takes over**
- First institutional shareholders invest
- Aggressive turnaround begins

Several strategic acquisitions include

- TbilUniversal Bank, ninth largest bank
- BCI, a leading insurance company
- Georgian Card, a card processing platform

Assets
US$ 258 mln
MCap
US$ 69 mln

2005-2006

Consolidation of the leading position in the domestic banking market

2005

- Series of packaged retail products rolled out
- Debut corporate bonds are placed
- Private Banking launched
- Infrastructure upgrade initiated
- Georgian Card moves to a new platform
- Bank of Georgia and BCI acquire Europace insurance company
- DEG divests
- Call Warrants against Bank of Georgia shares start trading on Vienna Stock Exchange Dritter Markt
- Consolidates control of Galt & Taggart Securities
- Receives the *Euromoney* Award for Excellence as The Best Bank in Georgia 2005

Assets
US$ 708 mln
MCap
US$ 567 mln

2006

- Lists on the London Stock Exchange
- Citigroup, World Business Capital, Thames River Capital and Merrill Lynch become key lenders
- Becomes the first Georgian entity to receive ratings from Standard and Poor's, Moody's and Fitch Ratings

As of 31 May 2007

Rating Agency	Rating	Outlook
Standard & Poor`s	`B+`/`B`	Stable
Moody`s	`B3`/`Ba1`	Stable
Fitch Ratings	`B`/`B`	Stable

- BCI acquires Aldagi, the leading insurance company in Georgia, launches Chemebi, a new consumer insurance brand
- Galt & Taggart Securities expands into Ukraine
- Galt & Taggart Capital debutes on the GSE
- Receives the *Euromoney* Award for Excellence as the Best Bank in Georgia 2006 and Bank Of The Year Award by *The Banker*

Statement Of The Chairman Of The Supervisory Board

DEAR FELLOW SHAREHOLDERS,

I am writing this letter for our 2006 annual report, our first since we listed GDRs on the London Stock Exchange, in the Istanbul airport lounge, en route from Warsaw, where I met at an investor conference many of the leaders of Poland's dynamic asset management industry – on whose success we hope to model our efforts in Ukraine and Georgia, to Baku, where I will speak to a large group of my peers about our Eurobond debut issuance experience. In many ways, this is a measure of how far we have come since our team has accepted the responsibility of managing your bank in October 2004.

Bank of Georgia in 2006

2006 has been another remarkable year for Bank of Georgia. Our annual revenue grew 77% to GEL 112 million, which, through our operating leverage, resulted in an increase of 97% in net income, to GEL 27 million, or GEL 1.445 per share on a fully diluted basis.

Riding the crest of the wave of Georgia's economic renewal, we continued to enjoy rapid top-line and bottom-line growth across almost all of our businesses - most of it organic. The growth in earnings was of high quality, as we continued to invest aggressively in our future, adding 1,051 people to our headcount and 50 branches to our footprint, as our domestic client base nearly tripled in 2006.

In keeping with our pioneering tradition, we continued innovating and introducing advanced financial services products to the Georgian businesses and consumers. In 2006, we launched *Chemebi*, our umbrella consumer insurance brand and product platform, launched point-of-sale consumer loans and attained unequivocal market leadership in this segment, and introduced our first credit card product.

Where it made sense, we acquired assets aiming at consolidating our domestic market leadership, such as the assets and liabilities of Intellect Bank and Aldagi, the leading Georgian insurance company. While recognizing the very considerable domestic growth opportunities afforded to us by Georgia's continued robust economic performance, we reached across the borders where we saw an early opportunity to be competitive and capture further room for profitable growth, with us acquiring a strategic 9.9% stake in a Ukrainian bank and Galt & Taggart Securities establishing its subsidiary in the promising Ukrainian market.

While capitalising aggressively on the various growth opportunities, we continued to focus on asset quality, maintaining a sound risk profile and opting for inorganic growth only when convinced of our ability to execute. In many cases, this measured and responsible approach resulted in judgment calls that curtailed revenue growth in some areas such as insurance and may have appeared, to an outsider, very conservative. We recognize, however, the importance of progressing down the growth path in a prudent and balanced manner. In 2006, your bank became and still remains the only Georgian entity to be rated by all three global rating agencies. We look forward to maintaining our prudent approach so that we continue to be rated at the sovereign ceiling and improve our ratings as our home market matures and the perception of risks consequently subsides.

Ultimately, the quality of our leadership team and our staff who work with them will determine the scope of our success. We have succeeded in 2006 in recruiting a number of high-caliber individuals and I am pleased to report the rapid development of our talented managers. We have fostered a culture of openness, respect and teamwork, grounded in our performance-based compensation structure which aligns the managers' interests with those of the shareholders, and it is a pleasure to observe this dynamic group during regular reviews of our various businesses, group-wide strengths and weaknesses and the exciting new opportunities Georgia and selected neighbouring markets offer.

Our achievements continued to be recognized internationally in 2006 as we became the recipient of The Bank of the Year Award by *The Banker* and The Best Bank in Georgia 2006 Award for Excellence from *Euromoney*. However, the recognition of our efforts that we value the most has come from you, dear fellow shareholders; as the market has increasingly recognized our market-leading position in Georgia and the growth profile this affords us, our share price grew 383% in 2006.

Looking Ahead

I hope after reading this letter and reviewing our 2006 and current results, you will share my optimism about our prospects and enormous potential of the Bank of Georgia franchise – domestically and, in selected cases, in neighbouring markets.

With our broad product range and rapidly growing client base comprising over 50,000 legal entities and 500,000 consumers in Georgia (over 10% of the population), we are very well positioned to capture a growing share of wallet of our clients through clever, targeted cross-selling and continuous innovation. Our product-to-client ratio in retail banking improved in 2006 from 1.8 to 2.2 (even as our client base nearly tripled) and, considering that for many of our clients this is the first and in most cases the only financial services relationship they have, it is up to us to succeed or fail in driving the product-to-client ratio to above 3.0 and possibly up to 4.0.

As we continue to invest in our market-leading domestic distribution footprint, we have every possibility to achieve relevance through ubiquity to an even larger base of Georgian consumers.

Having pioneered the integrated client coverage of corporate clients in Georgia, it is up to us to succeed (or fail) in increasing our share of wallet further by learning to work even better together. The continued rapid growth and increasing sophistication of our large and medium corporate clients make our value-added capabilities, such as trade finance, investment banking and asset management – in which we are head and shoulders above our competitors – increasingly relevant.

Our insurance franchise is the strongest in the market, with pro forma market share exceeding 40%. Based on prior track record, I anticipate that the integration of Aldagi will be completed successfully, following which we will look at ways of accelerating top-line and bottom-line growth of the business.

We have established ourselves as the undisputed domestic leader in wealth management, with a niche appeal to sophisticated non-resident private clients.

I am encouraged by our first steps in asset management and am confident that it is within our power to lead the Georgian market through the inevitable phase of deposit substitution and growing popularity of investment products.

Galt & Taggart Securities, which continues to dominate the domestic investment banking market, has established itself successfully in Ukraine and, alongside our wealth management and nascent asset management businesses, is blazing the trail looking for opportunities to further expand our regional footprint.

While we continue to screen the region for acquisition opportunities to augment our rapid organic growth, we will only invest our capital if the price is commensurate with the scope and business logic of the opportunity and if we are confident of our ability to execute on the integration and subsequent growth.

Considering the extent of our domestic market leadership, it may get lonely at the top, but let me assure you that the leadership team of your bank is far from resting on its laurels. We regularly benchmark our performance across a wide range of financial and operating metrics against a broad peer group of 39 banks from the EMEA region, including South Africa, CEE, Israel, Russia, Kazakhstan and Turkey. Our objective is to be, by 2009, firmly in the second quartile by all these metrics.

We have begun 2007 highly capitalised, with Total Capital Adequacy Ratio (BIS) of 35%. Furthermore, our engagement with the investor and lender community, high transparency and responsible way of conducting business ensure our growing credibility in, and domestically unrivalled access to, the international debt and equity capital markets. This leaves us well-prepared to capitalise on organic and inorganic growth opportunities.

Summing Up

I started this letter by stating that we have come a very long way since October 2004. As I contemplate our future prospects, I believe we have most, if not all, critical elements of sustained success – a robust strategic position, respected and popular brand, large and growing loyal client base, scale, distribution, risk management framework capital, and, last but not least – supportive shareholder base, experienced and engaged Supervisory Board, high-calibre managerial talent and professional, dedicated staff. All this augurs well for our future. I am privileged and thankful for the opportunity to have led this company through this remarkable period.

Sincerely,

Lado Gurgenidze

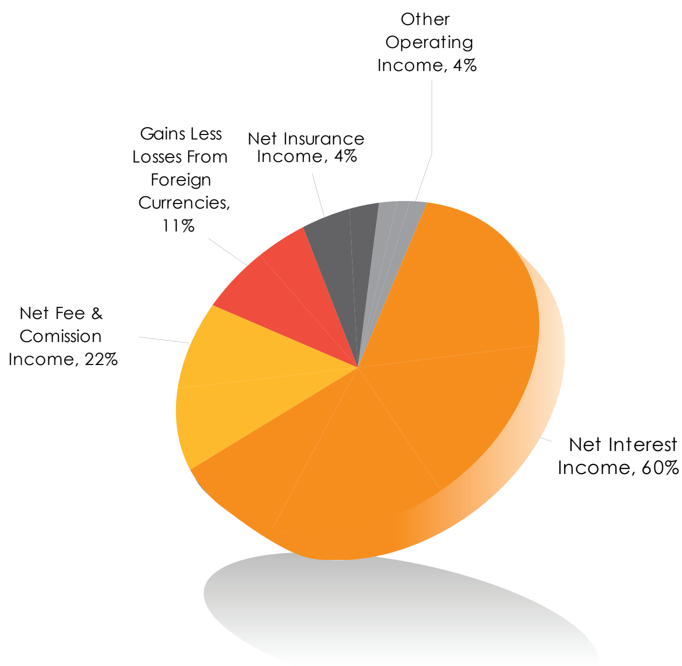
27 June 2007

Financial Review

STATEMENT OF INCOME

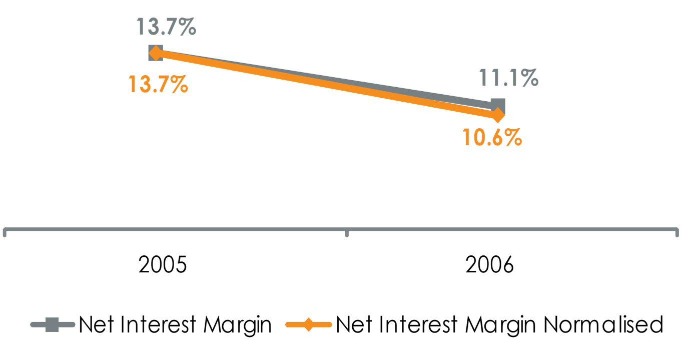
In 2006 Bank of Georgia's Revenue[1] increased by 77% to GEL 112.0 million with the growth driven by strong performance in all major revenue items including Net Interest Income, Net Fee and Commission Income and Other Non-Interest Income.

Revenue Distribution by Items



The growth of **Net Interest Income** by 72% to GEL 66.7 million was largely attributed to the loan portfolio growth of 130% in 2006, partially offset by a 156% increase in the interest expense, attributable to the significant rise in amounts due to customers in 2006.

Net Interest Margin



Net Interest Margin Normalised for the provisions for interest income generated by non-performing loans stood at a healthy 10.6% in 2006, a decrease of 310 bps compared to Net Interest Margin of 13.7% in 2005. The decline was mostly due to increase of cost of funds from 4.2% in 2005 to 5.8% in 2006.

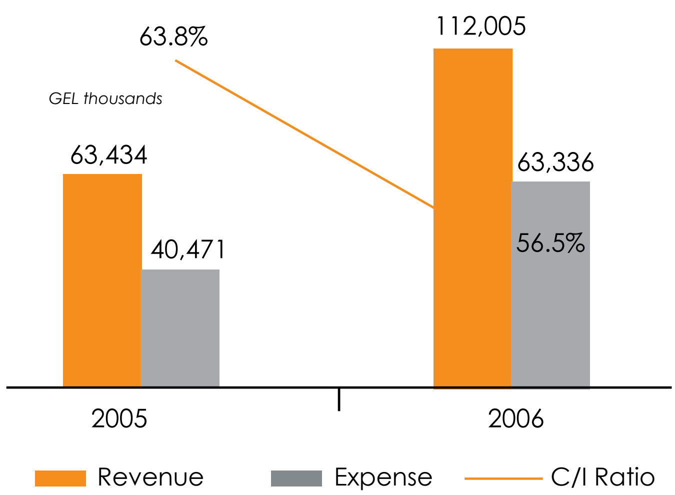
Net Fees and Commissions Income, grew by 72% to GEL 24.7 million.

Net Fees and Commission Income comprised fee and commission income from settlement operations, guarantees and letters of credit, cash collection, currency conversion operations, securities operations, fees from brokerage and other advisory services provided by Galt & Taggart Securities and other fees. The growth of the Net Fees and Commissions Income in 2006 was largely due to the growth of fees from settlement operations, and increased sales of fee generating products and services to the existing and new corporate and retail banking customers. The increase is also attributable 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 rose by 102% to GEL 22.4 million mainly driven by the 84% increase in Gains From Foreign Currency, 55% growth of Net Insurance Premiums Earned and 646% growth of Other Operating Income.

Net Insurance Income comprises Net Premiums Earned less Net Claim Incurred. **Net Insurance Claims Incurred increased** by 132% to GEL 1.8 million, driven by the organic growth of the insurance business. Net Premiums Earned increased by 55% to GEL 6.6 million.

Revenues and Expenses[2]



[1] *Revenue is calculated as the sum of Net Income before Impairment of Interest Earning Assets, Net Fee and Commission income and Other Non-Interest Income, less Net Insurance Claims Incurred*

[2] *Expenses (Costs) comprise of Other Non-Interest Expense less Insurance Claims Incurred*

In 2006 Expenses of the bank increased by 56% to GEL 63.3 million.

Salaries and Other Employee Benefits accounted for 53% of the Expenses and amounted to GEL 33.3 million, up 43% from 2005. The increase is attributable to increase in the number of employees, from 1,174 at the end of 2005 to 2,225 employees at the end of 2006, reflecting the growth of the bank's businesses and branch footprint expansion and an increase in the performance-driven compensation.

Other large cost items in 2006 include Occupancy and Rent expenses reaching GEL 3.2 million, accounting for 5% of the Expenses. The increase of 71% year-on-year was mostly driven by the branch footprint expansion. Marketing and Advertising expenses of GEL 2.6 million accounted for 4% of Expenses and the 125% increase year-on-year was largely a result of the partial rebranding that took place in the first half of 2006 and the active promotion of the bank's retail banking platform.

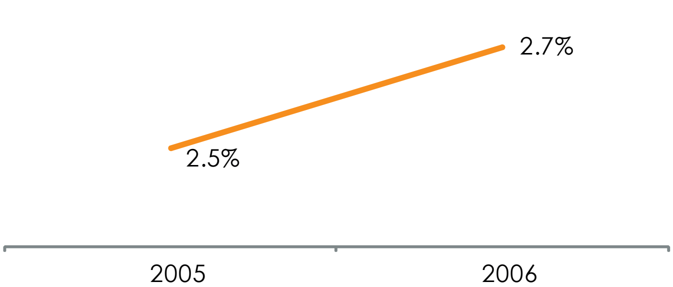
Depreciation increased 39% from the previous year and amounted to GEL 5.9 million, mainly due to the increase in the balance sheet amounts attributable to buildings and furniture and fixtures.

Cost/Income Ratio[2,1] has decreased from 63.8% in 2005 to 56.5% in 2006, reflecting the improved operating leverage.

Asset Quality

The overall asset quality is strong, with 96% of the total volume of gross loans to clients secured by property and other collateral. At the end of 2006 non-performing loans, i.e. loans that are overdue by more than 90 days, accounted for 2.3% of total loans (based on internal risk management principles used by Bank of Georgia). A year earlier this ratio was 4.5%.

Net Provisions/Average Gross Loans (Cost of Risk)



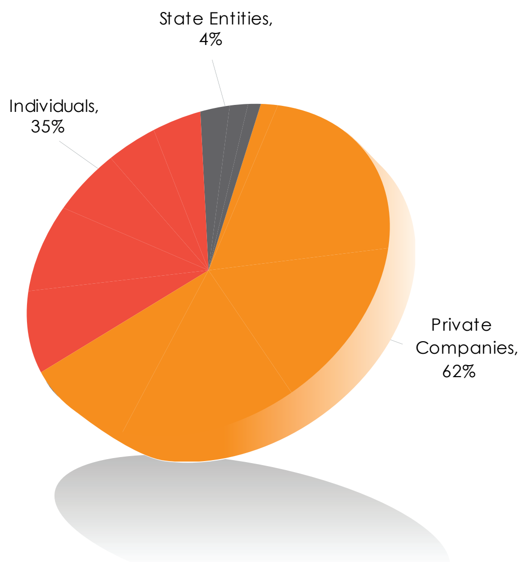
Tax charge for the year amounted to GEL 8.1 million, (GEL 3.1 million in 2005). The effective tax rate increased from 18.6% in 2005 to 23.3% 2006. The increase was caused by a significant rise in non-tax-deductible expenses primarily caused by the IPO and new performance-driven management compensation plan.

BALANCE SHEET

Total Assets grew by 162% to GEL 1,213 million by 31 December 2006.

2006 was a record year in terms of loan portfolio growth, as the loan book (Loans and Advances to Customers) grew by 130% in 2006. In absolute terms the loan book grew to GEL 684.8 million in 2006 from GEL 297.4 million in 2005. Both corporate lending (Private Companies) and retail lending (Individuals) experienced strong acceleration in the growth rates of 149% to GEL 434.2 million and 114% to GEL 244.5 million, respectively.

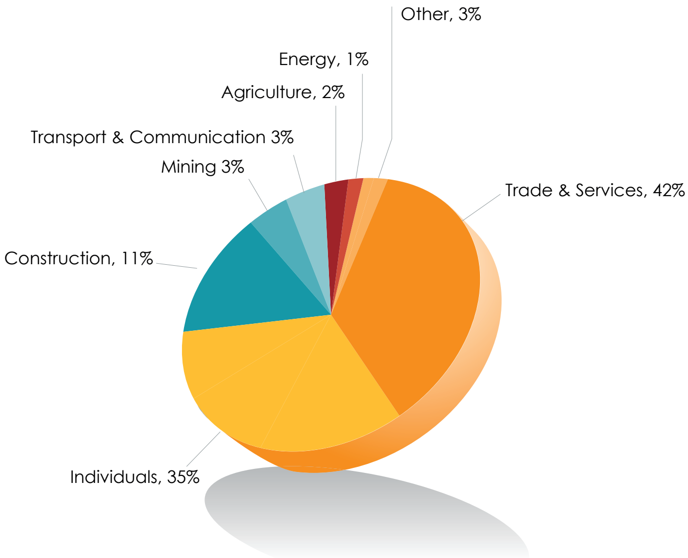
Loans and Advances by Customer Type



Retail loan book growth was driven primarily by the increases in mortgage and consumer lending.

Bank of Georgia maintained a well diversified loan book across various sectors of the economy. By the end of 2006, ten largest borrowers accounted for 15% of total loan book (16% in 2005).

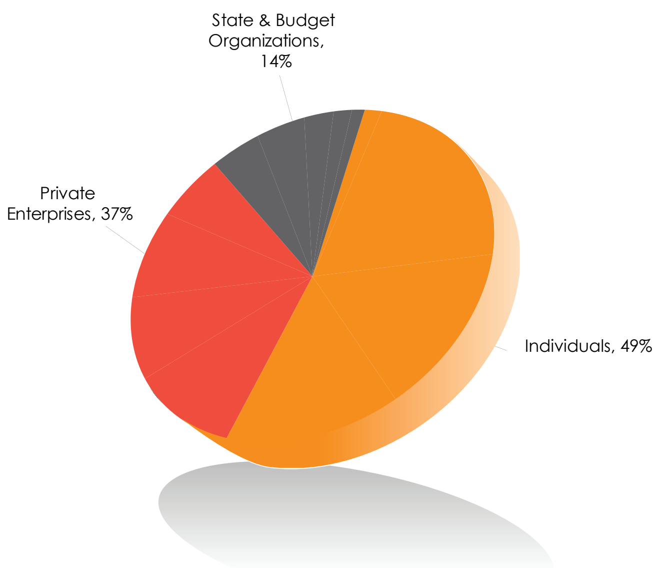
A Diversified Loan Book Structure



Amounts due to Customers (Deposits)

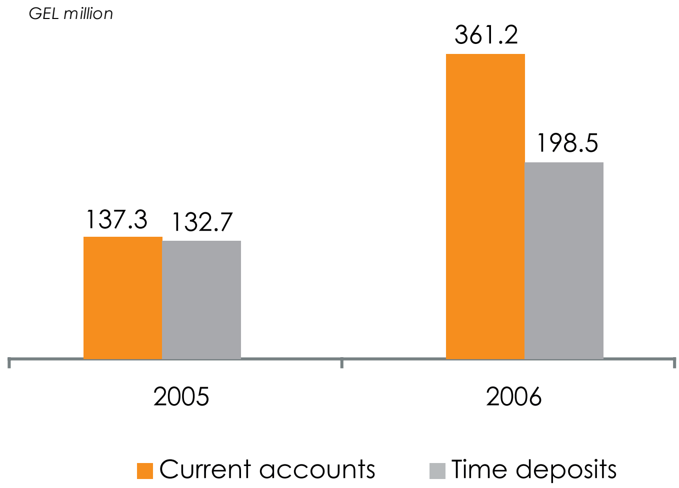
In 2006 Bank of Georgia's deposit base grew by 107% to GEL 559.6 million, largely driven by the 75% growth of retail deposits (Amounts due to Individuals) which accounted for 49% of deposits as at 31 December 2006.

Deposits by Customer Type



Current Account Balances grew by 163% to GEL 361.2 million compared to the 50% growth of term deposits.

Deposits by Type



Capital Structure

Tier 1 and Total Capital ratios (BIS) strengthened considerably to 44.9% (23.0% in 2005) and 41.8% (23.0% in 2005), respectively, largely due to the proceeds of the GDR placement on the London Stock Exchange in November 2006.

Capital Adequacy (BIS)

GEL thousands unless otherwise noted	2005	2006
Ordinary shares	14,729	25,202
Share premium	32,922	277,440
Retained earnings	37,216	63,746
Tier I Capital	**84,867**	**366,388**
General loan loss provisions	3,909	10,194
Revaluation reserves	5,369	5,257
Tier II Capital	**9,278**	**15,451**
Total Capital	**94,145**	**381,839**
Risk-weighted assets	368,422	815,489
Deductions from capital	(5,811)	(41,283)
Total Regulatory Capital	88,334	340,556
Tier I Capital Adequacy Ratio	**23.0%**	**44.9%**
Total Capital Ratio	**24.0%**	**41.8%**

Total Regulatory Capital increased to GEL 340.6 million from GEL 88.3 million in 2005.

Risk-weighted assets increased by 121% to GEL 815.5 million from GEL 368.4, largely driven by the loan book growth.

Deductions from capital mainly reflect Goodwill resulting from acquisitions and own shares repurchased and held as Treasury Stock.

National Bank of Georgia ("NBG") requires capital adequacy calculation based on the NBG methodology which is done on a standalone basis. Based on the NBG calculation method, Tier 1 and Total Capital ratios were at 23.2% (11.1% in 2005) and 28.5% (13.0% in 2005), respectively, compared with the required 8% and 12%, respectively.

Segment Results

RETAIL BANKING (RB)

GEL thousands, except percentages	Change y-o-y	31-Dec-06	Share of Group Total	31-Dec-05	Share of Group Total
Total Operating Income (Revenue)	63.8%	45,092	39.6%	27,522	42.2%
Segment Net Income	55.7%	18,056	48.2%	11,600	58.6%
Segment Total Assets	92.3%	373,462	30.8%	194,199	42.2%
Segment Total Liabilities	61.0%	263,057	31.7%	163,361	44.2%

By the end of 2006, Retail Banking (RB) provided banking services to over 400,000 retail clients through its network of 100 branches, 124 ATMs, the country's largest footprint, as well as other delivery channels such as Internet, mobile banking and state-of-the-art call center.

During 2006, Bank of Georgia consolidated its leadership in retail banking. The number of current accounts almost tripled from 141,000 current accounts at the beginning of the year to 415,000 current accounts by the year end.

In 2006, the bank launched several important client acquisition initiatives, including issuing several co-branded loyalty debit card products and establishing a branch footprint in all Tbilisi underground stations. Bank of Georgia helps meet the financial needs of the consumers and micro businesses through cooperating with 21 automobile dealers present in Georgia, as well as through point-of-sale express loans offered at 251 retailers through 89 points of presence.

The bank's efforts in expanding retail clients' funds have been particularly successful. In 2006, Amounts due to individual customers grew by 75% on a year-on-year basis and accounted for 49% of total deposits by the year end.

2006 Highlights

- Nearly doubled the number of branches from 56 to 100.
- Increased number of branch sales force by 86% to 1,036; added 77 new ATMs.
- Increased online customer base 776% to 37.4 thousand clients, originated 4,852 thousand online transactions, up 225%.
- Initiated POS consumer lending effort to complement the branch-based general purpose consumer lending, installing 89 points of presence at retailers by the end of 2006.
- Increased the number of debit cards outstanding 352% to 285,000 by the end of 2006.
- Launched credit cards in December 2006.

CORPORATE & INVESTMENT BANKING (CIB)

GEL thousands, except percentages	Change y-o-y	31-Dec-06	Share of Group Total	31-Dec-05	Share of Group Tota
Total Operating Income (Revenue)	59.9%	42,061	37.0%	26,310	40.3%
Segment Net Income	60.4%	28,907	77.2%	18,023	91.0%
Segment Total Assets	163.2%	535,026	44.1%	203,310	44.2%
Segment Total Liabilities	151.9%	455,616	54.9%	180,882	49.0%

Corporate and Investment Banking served, at the year-end 2006, more than 47,000 clients including large corporates, small and medium-size companies, NGOs and governmental entities.

An integrated client coverage model, enables Bank of Georgia to provide its clients with a broad range of financial solutions including the areas of lending, investment banking, trade finance, leasing, insurance, payroll services and pension plan administration.

Galt & Taggart Securities, the bank's wholly-owned investment banking subsidiary, provides corporate finance advisory and capital raising services to the bank's corporate client base.

2006 Highlights

- Enhanced the client coverage model as the number of clients served by a dedicated relationship banker increased from 864 in 2005 to 2,100 in 2006.
- Expanded the number of corporate clients using the bank's payroll services to over 480 from 106 in 2005.

ASSET & WEALTH MANAGEMENT (A&WM)

GEL thousands, except percentages	Change y-o-y	31-Dec-06	Share of Group Total	31-Dec-05	Share of Group Tota
Total Operating Income (Revenue)	594.6%	4,397	3.9%	633	1.0%
Segment Net Income	310.0%	961	2.6%	310	1.6%
Segment Total Assets	13045.5%	54,028	4.5%	411	0.1%
Segment Total Liabilities	2481.8%	72,444	8.7%	2,806	0.8%

Asset & Wealth Management business consists of private banking services provided under the Bank of Georgia brand, Galt & Taggart Securities, Georgia's leading investment banking firm wholly-owned by Bank of Georgia, BCI Pension Fund and Galt & Taggart Capital, a private equity vehicle investing in consumer goods, retail business support services, TMT and real estate sectors.

The bank provided in 2006 private banking services to almost 900 affluent Georgian and foreign individuals.

Galt & Taggart Securities offers a full range of investment banking services and entered by the end of the year, the Ukrainian market.

Galt & Taggart Capital became, in November 2006, the first private equity vehicle ever to be admitted to trading on the Georgian Stock Exchange.

2006 Highlights

- The number of private banking clients nearly doubled to 873 at the end of 2006.
- Assets Under Custody at Galt & Taggart Securities increased 391% to GEL 339 million (US$197 million) in 2006.
- Assets Under Management at the BCI Pension Fund grew 298% to GEL 0.5 million in 2006; the number of Pension Fund participants grew 105% from 1,049 in 2005 to 2,154 in 2006.
- Galt & Taggart Securities (Ukraine) obtained the requisite licenses and commenced operations in November 2006.
- Galt & Taggart Capital raised GEL 6.2 million through a placement of ordinary shares and was admitted to trading on the Georgian Stock Exchange.

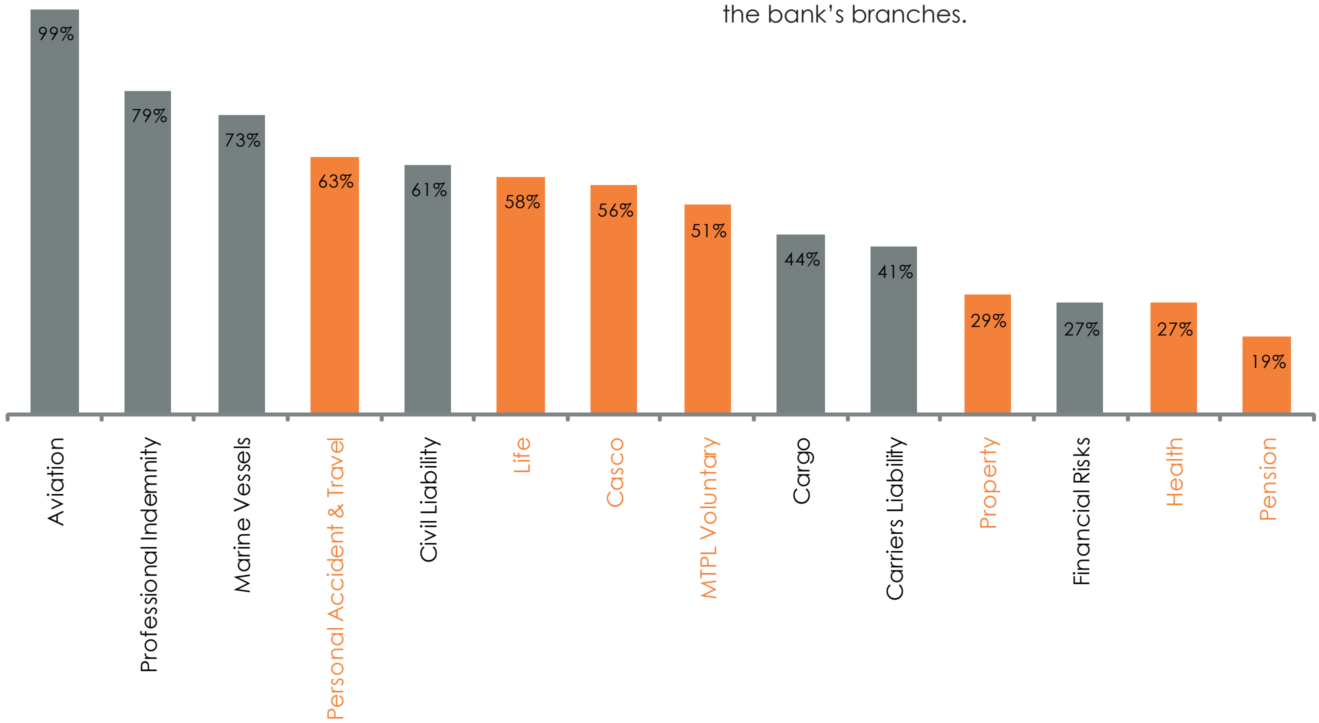
INSURANCE

GEL thousands, except percentages	Change y-o-y	31-Dec-06	Share of Group Total	31-Dec-05	Share of Group Total
Total Operating Income (Revenue)	78.4%	8,599	7.6%	4,821	7.4%
Segment Net Income	-58.7%	279	0.7%	676	3.4%
Segment Total Assets	211.8%	38,408	3.2%	12,320	2.7%
Segment Total Liabilities	238.1%	24,680	3.0%	7,299	2.0%

BCI, the wholly-owned insurance subsidiary of Bank of Georgia, is a leading non-life and life insurance company in Georgia.

The largest insurance provider, on a proforma basis, since the acquisition of Aldagi insurance company in December 2006, BCI finished the year as a clear leader in almost all product lines.

Pro Forma* Market Shares By Product Line**



** BCI and Aldagi combined*

*** By gross premiums written*

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.

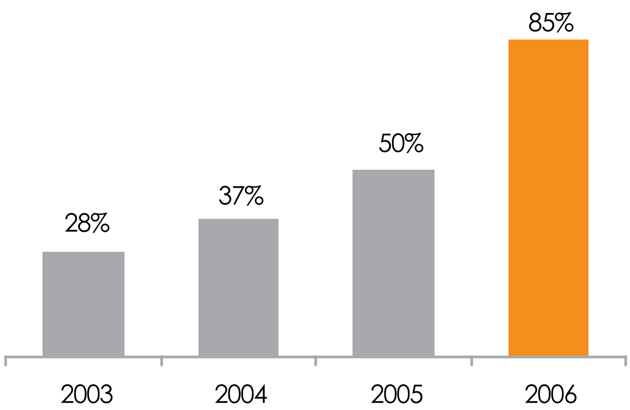
2006 Highlights

- Completed the integration of the business of Europace, the insurance company acquired in November 2005.
- Acquired in December 2006 Aldagi, the leading insurance company in Georgia.
- Launched Chemebi, the umbrella brand for all consumer lines of business.
- Increased number of branches from 3 in 2005 to 11 in 2006 and started selling consumer products through the bank's branches.

SHAREHOLDERS

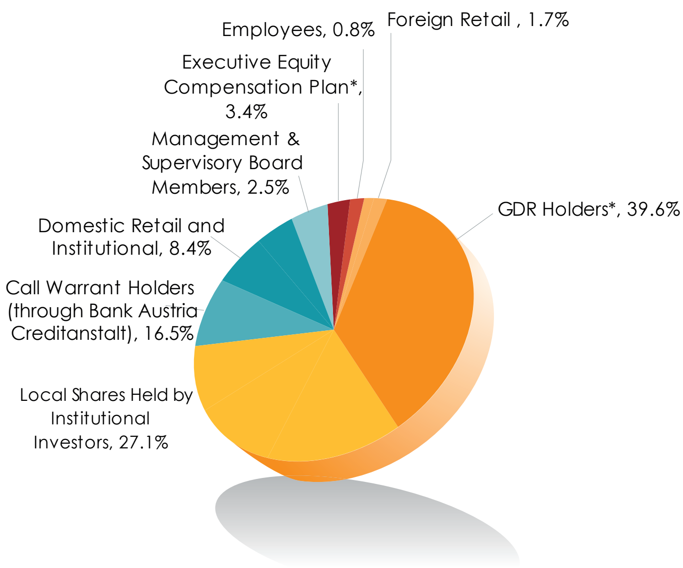
Since 2005 and throughout 2006, Bank of Georgia enjoyed unprecedented success in attracting institutional investors.

Institutional Investor Ownership Evolution (% of total shares)



The bank has a diversified shareholder base that is unique for a CIS bank, or indeed, any CIS company. Prior to the listing on the LSE, more than 20 Western institutional shareholders owned approximately 70% of the bank's equity. By the end of 2006, the bank's shareholder base comprised more than 100 institutional investors holding both local shares and GDRs, with institutional ownership approaching 85% and freefloat of approximately 94%.

Bank of Georgia Shareholder Composition



* through BNY (Nominees) Limited

As of 31 December 2006 the following shareholders owned more than 5% of the outstanding shares of Bank of Georgia

Shareholder	Shares	% of Total Shares Outstanding
BNY (Nominees) Limited	10,840,538	43.0%
Bank Austria Creditanstalt	4,166,242	16.5%
Firebird Avrora Fund	1,463,682	5.8%
Firebird Republics Fund	1,430,145	5.7%
East Capital Financial Institutions II AB	1,366,306	5.4%
Sub-Total	19,266,913	76.4%
Other	5,935,096	23.6%
Total	25,202,009	100.0%

As of 31 December 2006 Bank of Georgia Management and Supervisory Board Members owned 2.5% of the Bank of Georgia shares in addition to the aggregate of 185,000 GDRs awarded in 2006 that are subject to three year vesting. Bank of Georgia Employees owned approximately 1% equity interest in the bank as of 31 December 2006.

Management and Supervisory Board Members' Interest

As of 31 December 2006	Shares Held	GDRs Awarded and Vested	GDRs Awarded but Unvested
Lado Gurgenidze, Chairman of the Supervisory Board	376,244	30,000	60,000
Irakli Gilauri, Chief Executive Officer	-	16,666	33,334
Sulkhan Gvalia, Deputy Chief Executive Officer	224,000	13,333	26,667
Ramaz Kukuladze, Deputy Chief Executive Officer	22,122	1,666	3,334
Total	**622,366**	**61,665**	**125,335**

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Forward-Looking Statements

This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the implementation of strategic initiatives and other statements relating to our business development and financial performance.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, (1) general market, macroeconomic, governmental, legislative and regulatory trends, (2) movements in local and international currency exchange rates, interest rates and securities markets, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (6) management changes and changes to our group structure and (7) other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including those filed with the NSCG.

We are under no obligation (and expressly disclaim any such obligations) to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise.

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Bank of Georgia –

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia, which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Bank of Georgia as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

May 15, 2007

Ernst & Young Audit LLC

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET
As of December 31, 2006

(Thousands of Georgian Lari)

	Notes	*2006*	*2005*
Assets			
Cash and cash equivalents	5	108,045	57,236
Amounts due from credit institutions	6	65,475	33,398
Loans to customers	7	684,842	297,376
Net investment in lease	8	9,091	4,314
Investment securities:			
- available-for-sale	9	9,887	8,327
- held-to-maturity	9	187,244	2,280
Investment property		1,224	–
Property and equipment	10	66,828	35,815
Intangible assets	11	43,429	7,685
Income tax assets	12	–	2,570
Prepayments		3,476	455
Other assets	14	33,785	13,364
Total assets		**1,213,326**	**462,820**
Liabilities			
Amounts due to credit institutions	15	224,381	78,873
Amounts due to customers	16	559,646	269,952
Debt securities issued	17	1,073	1,143
Current income tax liabilities		751	–
Deferred income tax liabilities	12	7,387	2,087
Provisions		672	975
Other liabilities	14	44,558	18,328
Total liabilities		**838,468**	**371,358**
Equity	18		
Share capital		25,202	14,729
Additional paid-in capital		277,440	32,922
Treasury shares		(1,004)	(81)
Retained earnings		63,746	37,427
Other reserves		5,257	5,369
Total equity attributable to shareholders of the Bank		**370,641**	**90,366**
Minority interest		4,217	1,096
Total equity		**374,858**	**91,462**
Total equity and liabilities		**1,213,326**	**462,820**

Signed and authorised for release on behalf of the Management Board of the Bank

Irakli Gilauri — General Director

David Vakhtangishvili — Chief Financial Officer

May 15, 2007

The accompanying notes on pages 5 to 46 are an integralf part of these consolidated financial statements.

1

CONSOLIDATED STATEMENT OF INCOME
As of December 31, 2006

(Thousands of Georgian Lari)

	Notes	2006	2005
Interest income			
Loans to customers		92,612	47,247
Securities		1,206	2,664
Amounts due from credit institutions		5,310	1,525
Net investment in lease		1,143	396
		100,271	**51,832**
Interest expense			
Amounts due to customers		19,245	9,162
Amounts due to credit institutions		14,128	3,893
Debt securities issued		176	26
		33,549	**13,081**
Net interest income		**66,722**	**38,751**
Impairment of interest earning assets	13	13,766	6,228
Net interest income after impairment of interest earning assets		**52,956**	**32,523**
Fee and commission income		28,139	16,753
Fee and commission expense		(3,453)	(2,385)
Net fee and commission income	20	**24,686**	**14,368**
Gains less losses from foreign currencies:			
- dealing		12,049	5,379
- translation differences		(107)	1,128
Net insurance premiums earned		6,260	4,028
Other operating income		4,222	566
Other non interest income		**22,424**	**11,101**
Salaries and other employee benefits	21	33,316	23,219
Administrative expenses	21	20,649	10,883
Depreciation, amortization and impairment		5,887	4,230
Net insurance claims incurred		1,827	786
Impairment of other assets and provisions (reversal)		(170)	280
Other operating expenses		3,654	1,860
Other non-interest expense		**65,163**	**41,257**
Income (loss) before income tax expense		**34,903**	**16,735**
Income tax expense	12	8,131	3,108
Net income (loss) for the year		**26,772**	**13,627**
Attributable to:			
- shareholders of the Group		26,983	13,838
- minority interest		(211)	(211)
		26,772	**13,627**
Earnings (loss) per share:			
- basic		1.622	1.138
- diluted		1.445	1.138

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As of December 31, 2006

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Retained earnings*	*Other reserves*	*Total*	*Minority interest*	*Total equity*
December 31, 2004	**11,273**	**13,376**	**(73)**	**23,911**	**5,492**	**53,979**	**1,481**	**55,460**
Net change in investment securities available-for-sale, net of tax	–	–	–	–	–	–	–	–
Portion of the revalued assets sold	–	–	–	11	(11)	–	–	–
Revaluation of property and equipment, net of tax	–	–	–	–	–	–	–	–
Depreciation of revaluation reserve, net of tax	–	–	–	112	(112)	–	–	–
Currency translation differences	–	–	–	–	–	–	–	–
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**
Issue of share capital	3,456	19,629	–	–	–	23,085	–	23,085
Dividends to shareholders of the Bank	–	–	–	–	–	–	–	–
Dividends of subsidiaries to minority shareholders	–	–	–	–	–	–	–	–
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 treasury shares	–	(83)	(8)	–	–	(91)	–	(91)
December 31, 2005	**14,729**	**32,922**	**(81)**	**37,427**	**5,369**	**90,366**	**1,096**	**91,462**
Net change in investment securities available-for-sale, net of tax	–	–	–	–	–	–	–	–
Revaluation of property and equipment, net of tax	–	–	–	–	–	–	–	–
Share-based payments (Note 23)	175	2,343	68	–	–	2,586	–	2,586
Depreciation of revaluation reserve, net of tax	–	–	–	112	(112)	–	–	–
Transactions costs recognised directly in equity	–	(5,040)	–	–	–	(5,040)	–	(5,040)
Currency translation differences	–	–	–	–	–	–	–	–
Total income and expense recognised directly in equity	**175**	**(2,697)**	**68**	**112**	**(112)**	**(2,454)**	–	**(2,454)**
Net income for the year	–	–	–	26,983	–	26,983	(211)	26,772
Total income and expense for the year	**175**	**(2,697)**	**68**	**27,095**	**(112)**	**24,529**	**(211)**	**24,318**
Issue of share capital	10,298	249,571	–	–	–	259,869		259,869
Dividends to shareholders of the Bank	–	–	–	(776)	–	(776)	–	(776)
Dividends of subsidiaries to minority shareholders	–	–	–	–	–	–	–	–
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	–	–	–	–	3,454	3,454
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(122)	(122)
Purchase of treasury shares	–	(2,356)	(991)	–	–	(3,347)	–	(3,347)
December 31, 2006	**25,202**	**277,440**	**(1,004)**	**63,746**	**5,257**	**370,641**	**4,217**	**374,858**

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

3

CONSOLIDATED STATEMENT OF CASH FLOWS
As of December 31, 2006

(Thousands of Georgian Lari)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		96,231	48,047
Interest paid		(28,088)	(11,424)
Fees and commissions received		28,139	16,753
Fees and commissions paid		(3,453)	(2,385)
Realized gains less losses in foreign currencies		12,046	5,379
Recoveries of assets previously written off		3,263	2,691
Insurance premiums received		3,070	4,715
Insurance claims paid		(1,492)	(429)
Other operating income received		3,877	566
Salaries and benefits paid		(30,462)	(23,219)
Administrative and operating expenses		(20,984)	(12,743)
Cash flows from operating activities before changes in operating assets and liabilities		**62,147**	**27,951**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(28,816)	(7,793)
Loans to customers		(396,543)	(125,919)
Net investment in lease		(4,778)	(3,714)
Other assets		(10,914)	(2,775)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		136,065	26,870
Amounts due to customers		248,982	12,269
Other liabilities		3,774	8,905
Net cash flows from operating activities before income tax		**9,917**	**(64,206)**
Income tax paid		(203)	(387)
Net cash from/(used in) operating activities		**9,714**	**(64,593)**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		259	(735)
Purchase of (proceeds from sale of) investment securities		(186,288)	9,021
Purchase of investments in associates		(496)	(109)
Purchase of investment property		(1,224)	–
Proceeds from sale of property and intangible assets		–	437
Purchase of property and intangible assets		(30,277)	(12,997)
Net cash from/(used in) investing activities		**(218,026)**	**(4,383)**
Cash flows from financing activities			
Proceeds from issue of share capital		259,770	21,641
Purchase of treasury shares		(3,347)	(91)
Purchase of additional interest by the minority shareholder, net of cash acquired		3,454	365
Purchase of additional interest in existing subsidiaries, net of cash acquired		–	(550)
Sale of treasury shares		–	–
Proceeds from debt securities issued		–	1,143
Redemption of debt securities issued		(70)	
Dividends paid to shareholders of the Bank		(579)	(9)
Net cash from/(used in) financing activities		**259,228**	**22,499**
Effect of exchange rates changes on cash and cash equivalents		(107)	966
Net increase/(decrease) in cash and cash equivalents		**50,809**	**(45,511)**
Cash and cash equivalents, beginning		**57,236**	**102,747**
Cash and cash equivalents, ending	5	**108,045**	**57,236**

The accompanying notes on pages 5 to 46 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia (the "Bank") is a joint stock company, formed on the basis of the former State Bank Binsotsbanki on October 21, 1994, under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG") on December 15, 1994. The Bank is the ultimate parent of a group of companies (the "Group" or "Bank of Georgia Group") incorporated in Georgia, Cyprus and Ukraine, whose activity includes providing leasing, insurance, brokerage and asset and wealth management services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad and exchanges currencies. Its main office is in Tbilisi. At December 31, 2006 the Bank has 100 operating outlets in all major cities of Georgia (2005: 50). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As of December 31, 2006 the following shareholders owned more than 5% of the outstanding shares of the Bank. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	*December 31, 2006, %*	*December 31, 2005, %*
BNY (Nominees), Limited	43.01%	–
Bank Austria Creditanstalt	16.53%	10.00%
Firebird Avrora Fund	5.81%	9.00%
Firebird Republics Fund	5.67%	9.00%
East Capital Financial Institutions	5.42%	–
Firebird Global Master Fund	2.65%	4.00%
Kontsentra Limited	2.26%	5.00%
East Capital Holding	–	6.00%
East Capital Bering Fund	–	5.00%
EBRD	–	12.00%
Victor Gelovani	–	12.00%
Other	18.65%	28.00%
Total	**100.00%**	**100.00%**

As of December 31, 2006, members of the Supervisory Board and Board of Directors controlled 622,366 shares (2.47%) (2005 – 2,576,453 shares or 17.49 %) of the Bank. Interests of the members of the Supervisory Board and Managements Board were as follows:

Shareholder	December 31, 2006, shares held	December 31, 2005, shares held
Vladimer Gurgenidze	376,244	361,243
Sulkhan Gvalia	224,000	257,835
Ramaz Kukuladze	22,122	19,670
Victor Gelovani	–	1,694,610
Tariel Gvalia	–	243,095
Total	**622,366**	**2,576,243**

In addition to shares held, the members of the Supervisory Board and Management Board were awarded 185,000 Global Depository Receipts ("GDR") in 2006 (nil in 2005). The awards are subject to three-year vesting. 61,665 GDRs vested at December 31, 2006 as follows:

Member of the Supervisory Board and/or Management Board	*December 31, 2006, GDRs vested*	*December 31, 2005, GDRs vested*
Vladimer Gurgenidze	30,000	–
Irakli Gilauri	16,666	–
Sulkhan Gvalia	13,333	–
Ramaz Kukuladze	1,666	–
Total	**61,665**	**–**

In November and December 2006, 8,880,207 shares of the Bank in the form of Global Depository Receipts ("GDRs") were sold on London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,440,207 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Each GDR represents 1 ordinary share of the Bank. Bank of New York ("BNY") acts as a depositary for these shares.

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.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured 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 amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Group's consolidated financial statements.

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";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 8 "Scope of IFRS 2";
IFRIC 9 "Reassessment of Embedded Derivatives";
IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
IFRIC 12 "Service Concession Arrangements"

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Group financial instruments, the nature and extent of risks arising from those financial instruments, and the Group's objectives, policies and processes for managing capital.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

December 31, 2006 Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Insurance Company BCI	100.0%	Georgia	11/08/1998	Insurance	30/12/2004
JSC Galt & Taggart Securities	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	100.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC Insurance Company Europace	100.0%	Georgia	09/09/1998	Insurance (non life)	18/10/2005
JSC Galt & Taggart Capital	77.0%	Georgia	24/05/2006	Investment company	–
JSC SB Outdoor and Indoor	77.0%	Georgia	09/06/2006	Advertising company	–
Brokerage Company Hedji LLC	100.0%	Georgia	22/05/2002	Brokerage	17/04/2006
Tavazi LLC	100.0%	Georgia	31/03/2001	Brokerage	20/04/2006
JSC Georgian Card	55.4%	Georgia	17/01/1997	Card processing	20/10/2004
Intertour LLC	64.4%	Georgia	29/03/1996	Travel agency	25/04/2006
Georgian-American Medical Rehabilitation Center Nautilus LLC	100.0%	Georgia	05/04/2004	Fitness centre	9/03/2006
JSC SB Reestri	100.0%	Georgia	29/05/2006	Registrar	–
Metro Service + LLC	81.6%	Georgia	10/05/2006	Business servicing	–
Direct Debit Georgia LLC	77.0%	Georgia	22/02/2006	E-commerce	–
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	–
JSC Prime Fitness	77.0%	Georgia	03/07/2006	Fitness centre	–
JSC SB Real Estate	77.0%	Georgia	27/09/2006	Real estate	–
Holiday Travel LLC	64.4%	Georgia	11/02/2005	Tourist agency	4/09/2006
ICT Delameni LLC	100.0%	Georgia	30/03/1999	Registrar	22/08/2006
Company Center LLC	100.0%	Georgia	21/10/1996	Registrar	9/08/2006
Register Center LLC	100.0%	Georgia	25/01/1999	Registrar	30/09/2006
Galt and Taggart Holding Limited	100.0%	Cyprus	03/07/2006	Holding Company	–
Galt and Taggart Securities (Ukraine) LLC	100.0%	Ukraine	23/10/2006	Brokerage	–
JSC Insurance Company Aldagi	100.0%	Georgia	30/12/1995	Insurance	21/12/2006
Georgian Brokers Company LLC	100.0%	Georgia	23/06/1999	Brokerage	21/12/2006
Aldagi-Assistance LLC	100.0%	Georgia	22/02/2000	Insurance	21/12/2006

December 31, 2005 Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Insurance Company Europace	100.0%	Georgia	09/09/1998	Insurance (non life)	18/10/2005
JSC Georgian Card	55.4%	Georgia	17/01/1997	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	11/08/1998	Insurance	30/12/2004
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	–

In 2006 the Group purchased 100% of shares of JSC Insurance Company Aldagi. During 2006 the Group increased its ownership in Georgian Leasing Company LLC to 100% and acquired ten new subsidiaries, specifically – Georgian-American Medical Rehabilitation Center Nautilus LLC, Georgian Brokers Company LLC, Aldagi-Assistance LLC, Intertour LLC, Brokerage Company Hedji LLC, Tavazi LLC, Company Center LLC, ICT Delameni LLC, Holiday Travel LLC and Register Center LLC (refer to Note 22 on Business combinations). In addition, during the period from December 31, 2005 through December 31, 2006 the Group has acquired assets and liabilities of JSC Intellect Bank and incorporated the following nine new legal entities for different business purposes: JSC SB Reestri, Metro Service + LLC, JSC SB Energy (renamed into JSC SB Outdoor and Indoor on July 27, 2006), Direct Debit Georgia LLC, JSC Galt & Taggart Capital, JSC Prime Fitness, Galt and Taggart Holdings Limited (Cyprus), Galt and Taggart Securities (Ukraine) LLC and JSC SB Real Estate. JSC My Family Clinic is the former BCI Health Center. The company changed the name in 2006.

3. Summary of 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 intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisition of subsidiaries

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

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised 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' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

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

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 recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

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

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

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated 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 them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees 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 amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organised 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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from 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.

3. Summary of significant accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

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, amounts due to credit institutions, amounts due to customers and debt securities issued are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the borrowings are derecognised as well as through the amortisation process.

Leases

i. Finance - Group as lessor

The Group recognizes lease receivables at a value equal to the net investment in lease, starting from the date of commencement of the lease term. The net investment in a lease is calculated as the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating - Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the consolidated 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.

3. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of income.

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

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets 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 charge for impairment of financial assets 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 amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement on income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised 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 were recognised 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 derecognised where:

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

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

3. Summary of significant accounting policies (continued)

De-recognition of financial assets and liabilities (continued)

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated 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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

Georgia 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 equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised 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 revaluation reserve for property and equipment.

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

An annual transfer from the revaluation reserve for property and equipment 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 an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

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

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

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

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

3. Summary of significant accounting policies (continued)

Other intangible assets

The Group's other intangible assets include 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 amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

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.

3. Summary of significant accounting policies (continued)

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) or in providing products or services within particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against share premium.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

3. Summary of significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognised 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 recognised 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.

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. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are 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 recognised in the consolidated statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at December 31, 2006 and 2005 were 1.714 and 1.793 Lari to USD 1 and 2.256 and 2.125 Lari to EUR 1 respectively.

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

(Thousands of Georgian Lari)

4. Significant accounting estimates

Estimation uncertainty

The preparation of financial statements requires the Group to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below.

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.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of December 31, 2006, the Group did not record any contingent liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was GEL 40,279 (2005: 5,730). More details are provided in Note 11.

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2006	*2005*
Cash on hand	39,079	24,908
Current accounts with the NBG	236	4,273
Current accounts with other credit institutions	12,994	4,475
Time deposits with credit institutions up to 90 days	55,736	23,580
Cash and cash equivalents	**108,045**	**57,236**

As of December 31, 2006, GEL 61,790 (December 31, 2005 – GEL 9,291) was placed on current and time deposit accounts with internationally recognized and OECD banks that are the counter parties of the Group in performing international settlements. The group earns up to 3.60% of interest income on these deposits. (2005: 1.31%).

(Thousands of Georgian Lari)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	*2005*
Obligatory reserve with the NBG	61,461	28,977
Time deposits with effective maturity of more than 90 days	3,314	2,099
Inter-bank loans receivable	700	2,368
	65,475	**33,444**
Less – Allowances for impairment (Note 13)	–	(46)
Amounts due from credit institutions	**65,475**	**33,398**

Obligatory reserve with NBG represents amounts deposited with NBG relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw this deposit is restricted by the statutory legislature. During the year ended December 31, 2006 the Group earned up to 1.5% of interest income on obligatory reserves with NBG (2005: 1.5%).

As of December 31, 2006, GEL 1,181 (2005 - GEL 687) was placed on current accounts and inter-bank deposits with two (2005 - one) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As of December 31, 2006, inter-bank time deposits and loans include GEL 685 (2005 - GEL 3,400) placed with 1 Georgian bank.

7. Loans to customers

As of December 31, 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	297,819	144,489
Individuals	244,462	114,427
Construction	78,273	12,668
Transport and communication	23,899	13,646
Mining	17,674	3,667
Agriculture	13,990	1,055
Energy	10,261	208
Other	19,484	24,156
	705,862	**314,316**
Less – Allowance for loan impairment (Note 13)	**(21,020)**	**(16,940)**
Loans to customers, net	**684,842**	**297,376**

Loans have been extended to the following types of customers:

	2006	*2005*
Private companies	434,185	174,492
Individuals	244,462	114,427
State entities	27,215	25,397
Loans to customers	**705,862**	**314,316**

As of December 31, 2006, concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 103,563 accounting for 15% of gross loan portfolio of the Group (December 31, 2005 – GEL 51,197 and 16% respectively). An allowance of GEL 1,877 (December 31, 2005 – GEL 3,091) was created against these loans.

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at December 31, 2006, comprised GEL 657 (2005 – GEL 360).

(Thousands of Georgian Lari)

8. Net investment in lease

Net investment in lease comprised the following:

	December 31, 2006	*December 31, 2005*
Minimum lease payments receivable	11,428	5,825
Less - Unearned finance lease income	(2,229)	(1,435)
	9,199	**4,390**
Less - Allowance for impairment	(108)	(76)
Net investment in lease	**9,091**	**4,314**

The difference between the minimum lease payments to be received in the future and the net investment in leases represents unearned finance income.

As of December 31, 2006, concentration of investments in five largest lessees comprised GEL 6,734 or 74% of total net investment in lease (December 31, 2005 – GEL 2,980 or 69%) and finance income received from them as of December 31, 2006 comprised GEL 754 or 65% of total finance income from lease. (December 31, 2005 – GEL 137 or 55%).

Future minimum lease payments to be received after December 31, 2006 and December 31, 2005, are disclosed below:

	December 31, 2006	*December 31, 2005*
Within 1 year	5,682	177
From 1 to 5 years	5,733	5,326
More than 5 years	13	322
Minimum lease payments receivable	**11,428**	**5,825**

The effective interest rate on the lease portfolio is 16.5% per annum.

Minimum lease payments to be received after December 31, 2006 and December 31, 2005 are denominated in the following currencies:

	December 31, 2006	*December 31, 2005*
GEL	–	–
US Dollars	5,494	5,380
Euros	5,934	445
Minimum lease payments receivable	**11,428**	**5,825**

The equipment the Group leases out at December 31, 2006 can be segregated into the following categories:

	December 31, 2006		*December 31, 2005*	
	Amount	*Number of projects*	*Amount*	*Number of projects*
Construction equipment	8,879	15	2,708	7
Machinery & equipment	901	10	2,144	14
Light vehicle	1,648	30	973	13
Minimum lease payments receivable	**11,428**	**55**	**5,825**	**34**

(Thousands of Georgian Lari)

9. Investment securities

Available-for-sale securities comprise:

	2006	2005
Corporate bonds	4,353	–
Corporate shares	5,534	508
Ministry of Finance Treasury Bills	–	7,819
Available-for-sale securities	**9,887**	**8,327**

As of December 31, 2006, investments in available-for-sale corporate shares include Group's GEL 4,853 investments in two financial institutions in Georgia and in Ukraine. Corporate bonds comprise of GEL 4,353 Group's investment in one financial institution in Georgia.

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

	December 31, 2006		*December 31, 2005*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	15%	2007	–	–
Ministry of Finance Treasury Bills	–	–	12.85%	2006

Held-to-maturity securities comprise:

	December 31, 2006		*December 31, 2005*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	114	114	2,169	2,281
NBG Certificate of Deposit	140,390	142,976		
State Debt securities	46,740	46,770		
Ministry of Finance Treasury Bills	–	–	111	114
Held-to-maturity securities	**187,244**	**189,860**	**2,280**	**2,395**

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

	December 31, 2006		*December 31, 2005*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	14.67%	2007	14.00%	2006
Ministry of Finance Treasury Bills	–	–	13.60%	2006
NBG Certificate of Deposit	11.77%	2007	–	–
State Debt security	13.00%	2008	–	–

(Thousands of Georgian Lari)

10. Property and equipment

The movements in property and equipment during 2006 year 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)	4,758	1,129	889	194	236	–	7,206
Additions	9,427	8,639	3,847	556	211	5,633	28,313
Disposals	(137)	(117)	(1,889)	(249)	(165)	(61)	(2,618)
Transfers	1,342	–	–	–	431	(1,773)	–
December 31, 2006	**37,652**	**21,005**	**11,483**	**1,824**	**2,027**	**4,168**	**78,159**
Accumulated impairment December 31, 2005 and December 31, 2006	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Depreciation charge	616	1,401	1,905	217	302	–	4,441
Disposals	(108)	(141)	(1,895)	(244)	(165)	–	(2,553)
December 31, 2006	**1,227**	**4,314**	**4,097**	**749**	**477**	**–**	**10,864**
Net book value:							
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**
December 31, 2006	**35,958**	**16,691**	**7,386**	**1,075**	**1,550**	**4,168**	**66,828**

The movements in property and equipment during 2005 year were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
December 31, 2004	**17,456**	**8,025**	**5,911**	**1,249**	**998**	**–**	**33,639**
Acquisition through business combinations (Note 22)	–	24	39	28	–	–	91
Additions	4,003	3,489	2,650	13	64	1,688	11,907
Disposals	(261)	(8)	(22)	(73)	(15)	–	(379)
Transfers	1,064	(176)	58	106	267	(1,319)	–
December 31, 2005	**22,262**	**11,354**	**8,636**	**1,323**	**1,314**	**369**	**45,258**
Accumulated impairment December 31, 2004 and 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2004	**320**	**2,197**	**2,715**	**575**	**206**	**–**	**6,013**
Charge for the year	408	896	1,389	233	149	–	3,075
Disposals	(9)	(39)	(17)	(32)	(15)	–	(112)
December 31, 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Net book value							
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**–**	**27,159**
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was December 31, 2003. If the buildings were measured using the cost model, the carrying amounts as of December 31, 2006 and December 31, 2005 would be as follows:

	2006	*2005*
Cost	32,148	16,610
Accumulated depreciation and impairment	(1,443)	(903)
Net carrying amount	**30,705**	**15,707**

11. Intangible assets

Movements in intangible assets during 2006 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2005	**5,730**	**4,144**	**9,874**
Acquisition through business combinations (Note 22)	34,975	255	35,230
Additions	–	1,963	1,963
Disposals	–	(7)	(7)
December 31, 2006	**40,705**	**6,355**	**47,060**
Accumulated amortization and impairment			
December 31, 2005	**–**	**2,189**	**2,189**
Charge for amortization	–	1,020	1,020
Charge for impairment	426	–	426
Disposals	–	(4)	(4)
December 31, 2006	**426**	**3,205**	**3,631**
Net book value:			
December 31, 2005	**5,730**	**1,955**	**7,685**
December 31, 2006	**40,279**	**3,150**	**43,429**

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**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

As of December 31, 2006 Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Insurance Company BCI
- Georgian-American Medical Rehabilitation Center Nautilus LLC
- Intertour LLC
- JSC Insurance Company Aldagi
- JSC SB Reestri

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flow will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units:

		Carrying amount of goodwill	
	WACC applied for impairment	*December 31, 2006*	*December 31, 2005*
JSC Bank of Georgia	11%	21,308	1,892
JSC Insurance Company Aldagi	14%	14,259	–
JSC Insurance Company BCI	11%	2,341	2,341
JSC Insurance Company Europace	11%	1,450	1,497
Intertour LLC	14%	514	–
Company Center LLC	16%	216	–
Register Center LLC	16%	90	–
ICT Delameni LLC	16%	60	–
Holiday Travel LLC	14%	41	–
Total		**40,279**	**5,730**

Goodwill amount that arose from JSC Intellect Bank and JSC Tbiluniversal Bank acquisition has been allocated to JSC Bank of Georgia, mainly due to the fact that JSC Bank of Georgia has utilized assets and liabilities of mentioned financial institutions.

12. Taxation

The corporate income tax expense comprises:

	2006	*2005*
Current tax charge	3,697	206
Deferred tax charge – origination and reversal of temporary differences	5,427	2,902
Less: deferred tax recognised directly in equity	(993)	-
Income tax expense	**8,131**	**3,108**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2006 and 2005. The tax rate for companies other than banks was also 20% for 2006 and 2005. The tax rate for interest income on state securities was 10%.

(Thousands of Georgian Lari)

12. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As of December 31, 2006 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2006	*2005*
Income before taxation	**34,903**	**16,735**
Statutory tax rate	20%	20%
Theoretical income tax expense/(benefit) at the statutory rate	**6,981**	**3,347**
Share-based compensation expenses	517	–
Interest income	46	–
State securities at lower tax rates	–	(248)
Permanent differences	–	(169)
Change in unrecognized deferred tax assets	–	63
Non-deductible expenditures:	–	
- impairment of intangible assets	40	48
- other impairment losses	75	48
- entertainment	97	11
-business trip	128	–
-charity	207	–
- other	40	8
Income tax expense	**8,131**	**3,108**

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 December 31 and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2004	*In the statement of income*	*Directly in equity*	*2005*	*In the statement of income*	*Directly in equity*	*2006*
Tax effect of deductible temporary differences:							
Amounts owed to credit institutions	–	–	–	–	1,457	–	1,457
Allowances for impairment and provisions for other losses	–	59	–	59	788	–	847
Tax losses carried forward	1,754	(1,308)	–	446	(446)	–	–
Net investment in lease	–	12	–	12	(12)	–	–
Intangible assets	–	119	–	119	(119)	–	–
Property and equipment	145	(115)	–	30	(30)	–	–
Gross deferred tax assets	**1,899**	**(1,233)**	**–**	**666**	**1,638**	**–**	**2,304**
Unrecognized deferred tax assets	–	(63)	–	(63)		–	63
Deferred tax asset	**1,899**	**(1,296)**	**–**	**603**	**1,638**	**–**	**2,367**
Tax effect of taxable temporary differences:							
Fair value measurement of securities	–	–	–	–	–	–	–
Loans to customers	–	665	–	665	915	993	2,573
Allowances for receivables	36	88	–	124	(124)	–	–
Property and equipment	1,048	590	–	1638	4,136	–	5,774
Intangible assets	–	–	–	–	731	–	731
Other assets	–	78	–	78	(78)	–	–
Other liabilities	–	185	–	185	491	–	676
Deferred tax liability	**1,084**	**1,606**	**–**	**2,690**	**6,071**	**993**	**9,754**
Deferred tax asset (liability)	**815**	**(2,902)**	**–**	**(2,087)**	**(4,433)**	**(993)**	**(7,387)**

(Thousands of Georgian Lari)

12. Taxation (continued)

As of December 31 tax assets and liabilities consist of the following:

	2006	*2005*
Current tax assets	–	2,570
Deferred tax assets	–	–
Tax assets	–	**2,570**
Current tax liabilities	751	–
Deferred tax liabilities	7,387	2,087
Tax liabilities	**8,138**	**2,087**

13. Allowances for impairment and provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
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**
Charge (reversal)	(32)	13,798	13,766
Write-offs	(14)	(8,643)	(8,657)
Recoveries	–	3,263	3,263
Interest accrued on impaired loans	–	(4,338)	(4,338)
December 31, 2006	**–**	**21,020**	**21,020**

The movements in allowances for other assets and provisions were as follows:

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
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**
Charge (reversal)	(176)	309	(303)	(170)
Amounts arising on business combination (Note 22)	1,837	556	–	2,393
Write-offs	(1,940)	(1,256)	–	3,196
December 31, 2006	**–**	**528**	**672**	**1,200**

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with the Georgian legislation, loans must be written off if both principal and interest is overdue for more than 150 days.

(Thousands of Georgian Lari)

14. Other assets and liabilities

As of December 31 other assets comprise:

	2006	*2005*
Reinsurers assets	11,279	2,250
Insurance premiums receivable	5,791	3,300
Prepayment for purchase of fixed assets	5,029	1,064
Foreclosed assets	4,543	2,474
Receivable from money transfers	3,853	2,184
Settlements on operations with securities	826	536
Operating taxes receivable	783	613
Investment in associates	496	520
Lease receivable	226	504
Other	1,487	838
	34,313	**14,283**
Less – Allowance for impairment of other assets (Note 13)	(528)	(919)
Other assets	**33,785**	**13,364**

Foreclosed assets represent assets repossessed from the borrowers of the Bank. These assets are not used for their intended purposes and are being held for short-term purposes with intent of sale.

Other liabilities comprise:

	2006	*2005*
Creditors	12,920	3,857
Unearned premiums reserve	9,405	3,417
Insurance claims reserves	6,860	1,532
Accruals for employee compensation	6,509	4,967
Reinsurance accounts payable	4,288	1,680
Amounts payable for acquisitions	2,475	841
Dividends payable	313	115
Fines and penalties payable	–	671
Other taxes payable	623	555
Other	1,165	693
Other liabilities	**44,558**	**18,328**

Amounts payable for acquisitions comprise of GEL 2,200 hold-back amount for acquisition of JSC Aldagi and GEL 275 hold-back amount for acquisition of JSC Europace. Dividends payable represent the dividends accrued as of December 31, 2006 but not collected by the shareholders of the Bank. These dividends are the ones declared for years 1997 through 2006.

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Correspondent accounts	2,920	144
Time deposits and loans	79,180	37,007
Borrowings from international credit institutions	142,281	41,722
Amounts due to credit institutions	**224,381**	**78,873**

During 2006, the Group received short-term funds from Georgian banks in different currencies. As of December 31, 2006, the Group had an equivalent of GEL 871 (December 31, 2005 – GEL 20,919) in foreign currencies received as deposits from Georgian banks. For the year ended December 31, 2006 the group paid up to 6% on these deposits (2005: 9%).

(Thousands of Georgian Lari)

15. Amounts due to credit institutions (continued)

During 2006, the Group has obtained the following credit facilities:

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Interest rate*	*Amount in original currency*	*GEL equivalent at December 31, 2006*
Semper Augustus B.V. (convertible subordinated debt)	1-Oct-06	27-Sep-16	USD	4%	25,000	43,335
Citibank N. A. USA	24-Mar-06	24-Sep-07	USD	LIBOR+4.75%	25,000	42,886
Merrill Lynch International	15-Aug-06	15-Aug-07	USD	LIBOR+2.65%	25,000	44,320
NBG	21-Feb--06	20-Feb-08	GEL	6.20%	20,000	20,000
WBC	17-Feb-06	01-Oct-13	USD	LIBOR+2.75%	10,000	17,168
Hillside Apex Fund Ltd (subordinated debt)	14-Aug-06	14-Aug-16	USD	LIBOR+6.20%	5,000	8,996
Basis Bank	30-Dec-06	04-Jan-07	GEL	10.00%	1,500	1,500
BTA Silk Road Bank	30-Dec-06	04-Jan-07	GEL	10.50%	800	800

The loan received on October 1, 2006 from a fund HBK Investments L.P. (Semper Augustus B.A.) has convertibility feature valid for 2 years from the loan granting date (convertibility period). HBK is able to convert granted loan into ordinary shares of the Bank for price equal to 21.6 USD per share. According to the contract there is no limitation to the volume of conversion. As of December 31, 2006 HBK did not exercise convertibility option

As of December 31, 2006 and December 31, 2005, borrowings from international financial institutions included borrowings from Citigroup, Merrill Lynch, Thames River (Hillside Apex Fund Ltd), HBK Investments L.P., Commerzbank, World Business Capital, Deutsche Investitions und Enktwicklungsgesellshaft MBH (DEG), International Finance Corporation (IFC), and European Bank of Reconstruction and Development (EBRD). All these loans bear floating interest rates tied either to LIBOR or EURIBOR, ranging from LIBOR plus 2.00% to LIBOR plus 5.25% (December 31, 2005 – 2.00% to 5.25%), for USD borrowings and, from EURIBOR plus 4.25% to EURIBOR plus 4.50% (December 31, 2005 – 4.25% to 6.00%), 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).

Agreements for such borrowings contain certain covenants establishing for the Group different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. As of September 30, 2006, the Group was not in compliance with certain covenants related to its borrowings. The Group obtained waiver letters from respective credit institutions and the breach of covenants did not cause event of default. As of December 31, 2006, the Group complied with all the covenants of the loans received from credit institutions.

16. Amounts due to customers

The amounts due to customers include the following:

	2006	*2005*
Current accounts	361,164	137,296
Time deposits	198,482	132,656
Amounts due to customers	**559,646**	**269,952**
Held as security against letters of credit	**6,788**	**652**
Held as security against guarantees	**1,079**	**1,422**

At year-end, amounts due to customers of GEL 139,866 (25%) were due to the 10 largest customers (2005 - GEL 35,577 (13%)).

(Thousands of Georgian Lari)

16. Amounts due to customers (continued)

Amounts due to customers include accounts with the following types of customers:

	2006	*2005*
Individuals	*273,650*	156,373
Private enterprises	*209,312*	86,123
State and budget organizations	*76,684*	27,456
Amounts due to customers	**559,646**	**269,952**

The following represents the breakdown of customer accounts by industry sector is as follows:

	2006	*2005*
Individuals	273,650	156,373
Trade and services	107,082	38,262
Governmental	76,684	1,997
Mining	31,757	6,974
Construction	25,977	8,018
Transport and communication	18,515	17,396
Energy	6,758	14,044
Agriculture	625	343
Other	18,598	26,545
Amounts due to customers	**559,646**	**269,952**

17. Debt securities issued

Debt securities issued consisted of the following:

	2006	*2005*
Promissory notes issued	1,073	1,143
Debt securities issued	**1,073**	**1,143**

Interest-bearing callable notes that were issued by the Group as of December 31, 2006 had an aggregate nominal value of GEL 1,035 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). The notes are denominated in GEL and carry interest of 11% per annum.

18. Equity

As of December 31, 2006, authorized share capital comprised 25,335,619 common shares, of which 25,202,009 were issued and fully paid (December 31, 2005 – 19,783,409 common shares, of which 14,728,784 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as of December 31, 2006 are described below. GEL 99 comprises non cash contribution to share capital.

Movements during 2006 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2005	**14,728,784**	**14,729**
Issuance of shares	10,473,225	10,473
December 31, 2006	**25,202,009**	**25,202**

(Thousands of Georgian Lari)

18. Equity (continued)

Movements during 2005 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2004	**11,273,386**	**11,273**
Issuance of shares	3,455,398	3,456
December 31, 2005	**14,728,784**	**14,729**

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For the year 2006, net income attributable to ordinary shareholders was GEL 26,772. As of December 31, 2006 weighted average number of ordinary shares outstanding during the period was 16,503,972 (2005-11,908,473). At December 31, 2006 diluted number of ordinary shares was 18,531,380 shares. Thus, basic and diluted earnings per share amounted 1.622 (2005 1.138) and 1.445 Georgian Lari respectively.

On December 22, 2005 shareholders of the Bank approved an increase of share capital of an additional 5,000,000 ordinary shares. On November 6, 2006 shareholders of the Bank approved an increase of share capital of an additional 5,552,210 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.

In November and December 2006 8,880,207 shares of the Bank in the form of GDRs were sold on London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,440,207 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders.. Each GDR represents 1 ordinary share of the Bank. BNY acts as a depository for these shares.

As of December 31, 2006, treasury shares of GEL 222 at par value and share premium of GEL 2,657 comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market (2005 – treasury shares of GEL 81 at par and share premium of GEL 300).

Treasury shares of GEL 850 par value comprise Group's shares in the form of GDRs held by Abacus Corporate Trustee Limited. (2005 - 0). Of these 206,000 GDRs were awarded and 68,660 GDRs vested in 2006 (Note 23).

During the year ended December 31, 2006, 175,000 ordinary shares of GEL 175 at par value and share premium of GEL 402 have been granted as compensation to top management. 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.

In April 2006, the Group declared dividends of GEL 775 in respect of 2005 being GEL 0.00005 per share (nil in 2005 in respect of 2004).

Movements for the year ended December 31, 2006 in other reserves were as follows:

Movements in other reserves

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Total*
At 1 January 2005	**5,492**	**5,492**
Depreciation of revaluation reserve, net of tax	(112)	(112)
Sale of revalued asset	(11)	(11)
At 31 December 2005	**5,369**	**5,369**
Depreciation of revaluation reserve	(112)	(112)
Tax effect of depreciation of revaluation reserve	–	–
Net unrealised gains / (losses) on available-for-sale investments	–	–
Realised gains/(losses) on investment securities available-for-sale reclassified to the statement of income	–	–
Tax effect of net gains on investment securities available-for-sale	–	–
Currency translation differences	–	–
At 31 December 2006	**5,257**	**5,257**

(Thousands of Georgian Lari)

18. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised 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, 2006 and December 31, 2005 the Group's financial commitments and contingencies comprised the following: As of December 31, 2006 the capital expenditure commitments represent the commitment for purchase of property of GEL 533, equipment of GEL 348, and software of GEL 248.

	2006	*2005*
Credit related commitments		
Undrawn loan commitments	44,337	15,751
Letters of credit	33,802	20,888
Guarantees	77,198	34,777
	155,337	**71,416**
Operating lease commitments		
Not later than 1 year	2,774	1,238
Later than 1 year but not later than 5 years	9,490	3,323
Later than 5 years	8,417	1,052
	20,681	**5,613**
Capital expenditure commitments	**1,129**	**216**
Less – Provisions	(672)	(975)
Less – Cash held as security against letters of credit and guarantees	(7,867)	(538)
Financial commitments and contingencies	**168,608**	**75,732**

Insurance

The Group's premises are insured for GEL 48,868 (2005 – GEL 14,342). As of December 31, 2006, the Group has obtained Bankers Blanket Bond insurance, Directors and Officers liability insurance and Public Offer of Securities insurance coverage.

(Thousands of Georgian Lari)

20. Net fee and commission income

During the year ended December 31 net fees and commission income comprises:

	2006	*2005*
Settlements operations	15,074	9,053
Guarantees and letters of credit	4,713	2,913
Cash collection	4,257	2,870
Brokerage service fees	2,632	573
Currency conversion operations	824	780
Advisory	178	133
Other	461	431
Fee and commission income	**28,139**	**16,753**
Settlements operations	1,912	1,171
Guarantees and letters of credit	1,257	804
Cash operations	158	245
Currency conversion operations	81	55
Other	45	110
Fee and commission expense	**3,453**	**2,385**
Net fee and commission income	**24,686**	**14,368**

21. Salaries and administrative expenses

During the year ended December 31 salaries and other employee benefits, as well as administrative expenses comprise:

	2006	*2005*
Salaries and bonuses	28,454	19,501
Social security costs	4,862	3,718
Salaries and benefits	**33,316**	**23,219**
Occupancy and rent	3,223	1,890
Security	1,592	1,248
Marketing and advertising	2,564	1,141
Communication	1,751	948
Operating taxes	998	958
Legal and other professional services	2,289	942
Office supplies	2,384	876
Repair and maintenance	1,523	847
Personnel training and recruitment	399	560
Travel expenses	1,072	398
Corporate hospitality and entertainment	539	244
Banking services	645	238
Insurance	806	331
Penalties incurred	50	–
Other	814	262
Administrative expenses	**20,649**	**10,883**

(Thousands of Georgian Lari)

22. Business combination

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations occurred during 2006 (i.e. JSC Intellect Bank, JSC Insurance Company Aldagi, Intertour LLC, Register Center LLC and Georgian-American Medical Rehabilitation Center Nautilus LLC) in aggregate as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	12,182	12,182
Due from credit institutions	3,246	3,246
Deposits with banks	117	117
Investment securities:	–	–
– held-to-maturity	–	–
– available-for-sale	92	92
Investments in associates	199	1,238
Loans to customers	8,644	8,644
Other debtors and receivable	2,614	2,614
Property and equipment	7,206	6,113
Intangible assets	256	1,103
Reinsurance Assets	7,990	7,990
Other assets	3,352	2,297
	45,898	**45,736**
Amounts owed to credit institutions	8,175	8,175
Amounts owed to customers	37,419	37,419
Amounts owned to reinsurers	2,734	2,734
Unearned premiums reserve	4,558	4,588
Claims reserves	5,491	5,491
Loans	3,783	3,783
Accounts payable	768	768
Advances received	590	590
Other liabilities	3,232	3,332
	66,750	**66,880**
Fair value of net assets	**(20,852)**	**(21,144)**
Minority interest		
Goodwill arising on acquisition	34,975	–
Consideration paid	**14,123**	**–**

The total net cash inflow on all acquisitions was as follows:

	2006
Cash paid	11,923
Cash acquired with the subsidiary	(12,182)
Net cash inflow	**(259)**

If the combination had taken place at the beginning of the period, the net income (loss) of the group would have been GEL 4,149 and the total revenue would have been GEL 120,247.

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.

(Thousands of Georgian Lari)

22. Business combination (continued)

JSC Intellect Bank (continued)

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	199	1,238
Loans to customers	8,644	8,644
Property and equipment	2,796	2,761
Intangible assets	191	226
Other assets	2,568	1,513
	27,989	**27,973**
Amounts owed to credit institutions	7,275	7,275
Amounts owed to customers	37,419	37,419
Tax liabilities	–	–
Other liabilities	2,712	2,765
	47,406	**47,459**
Fair value of net assets	**(19,417)**	**(19,486)**
Goodwill arising on acquisition	19,417	–
Consideration paid	**–**	**–**

The net cash outflow on acquisition was as follows:

	2006
Cash paid	–
Cash acquired with the subsidiary	(10,312)
Net cash inflow	**(10,312)**

If the combination had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 4,770 and the total revenue would have been GEL 114,358.

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Group's operations.

(Thousands of Georgian Lari)

22. Business combination (continued)

JSC Aldagi

The fair value of identifiable assets, liabilities and contingent liabilities of JSC Aldagi as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1,703	1,703
Deposits with banks	107	107
Amounts due from customers	2,267	2,267
Amounts due from reinsurers	182	182
Reinsurance assets	7,990	7,990
Property and equipment	380	380
Intangible assets	61	61
Income tax asset	113	113
Other assets	554	554
	13,357	**13,357**
Unearned premiums reserve	4,558	4,558
Claims reserves	5,491	5,491
Amounts owed to creditors	253	253
Amounts owed to reinsurers	2,734	2,734
Amounts owed to CI	900	900
Deferred commissions income	294	294
Other liabilities	186	185
	14,416	**14,415**
Fair value of net assets	**(1,059)**	**(1,058)**
Goodwill arising on acquisition	14,259	
Consideration paid	**13,200**	

The net cash outflow on acquisition was as follows:

	2006
Cash paid	11,000
Cash acquired with the subsidiary	(1,703)
Net cash outflow	**9,297**

If the combination had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 27,041 and the total revenue would have been GEL 119,417.

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Group's operations.

Part of the consideration paid for JSC Aldagi includes GEL 2,200 which will be paid (subject to hold-back provisions) in cash by the Group after one year from the date of JSC Aldagi acquisition.

(Thousands of Georgian Lari)

22. Business combination (continued)

Intertour LLC

On April 25, 2006 the Group acquired a controlling interest (87.5 %) in Intertour LLC - travel agency. The fair value of identifiable assets, liabilities and contingent liabilities of Intertour LLC as of the date of the acquisition were as follows:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	137	137
Other debtors and receivable	158	158
Property and equipment	10	10
Intangible assets	1	1
Tax Assets	51	51
Prepayments	19	19
	376	**376**
Accounts payable	475	475
Other liabilities	52	52
	527	**527**
Fair value of net assets	**(151)**	**(151)**
Goodwill arising on acquisition	514	–
Consideration paid	**363**	**–**

Total cost of the combination was GEL 363 which was paid fully with cash. Net cash outflow on acquisition was as follows:

	2006
Cash paid	363
Less: cash acquired with the subsidiary	(137)
Net cash outflow	**226**

If the combination had taken place at the beginning of the period, net income of the Group would have been GEL 26,825 and the total revenue would have been GEL 113,938.

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Group's operations.

Georgian-American Medical Rehabilitation Center Nautilus LLC

On March 9, 2006 the Group obtained controlling interest (100%) in Georgian-American Medical Rehabilitation Center Nautilus LLC (the "Company") – fitness centre. The Company had outstanding liabilities of GEL 4,372 to the Group and was not able to repay them. The Group converted the loan into equity of the company. The fair value of identifiable assets, liabilities and contingent liabilities of "Georgian-American Medical Rehabilitation Center Nautilus" LLC as of the date of acquisition were as follows:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	4	4
Property and equipment	3,992	2,934
	3,996	**2,938**
Accounts payable	23	23
Advances received	590	590
Loans	3,783	3,783
Tax liabilities	4	4
Other liabilities	21	21
	4,421	**4,421**
Fair value of net assets	**(425)**	**(1,483)**
Goodwill arising on acquisition	426	–
Consideration paid	**1**	**–**

(Thousands of Georgian Lari)

22. Business combination (continued)

Georgian-American Medical Rehabilitation Center Nautilus LLC (continued)

Total cost of the combination was GEL 1 which was paid fully in cash. Net cash outflow on acquisition was as follows:

	2006
Cash paid	1
Less: cash acquired with the subsidiary	(4)
Net cash inflow	**3**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 25,830 and the total revenue would have been GEL 113,863.

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Group's operations.

23. Share based payments

In December 2006, Abacus Corporate Trustee Limited acting in its capacity as the trustee of the Bank's EECP resolved to award the Bank's 206,000 ordinary shares in the form of restricted GDRs to 18 executives of the Group in respect of the year ended on 31 December 2005. The awards are subject to three year vesting. The Group considers 2 June 2006 the grant date for these awards and estimates that the fair value of shares on 2 June 2006 was 12.85 Georgian Lari per share.

In February 2007, Bank of Georgia's Supervisory Board resolved to recommend to the trustee to award 267,550 Bank of Georgia ordinary shares in the form of restricted GDRs to the Group's 23 executives pursuant to the EECP in respect of the year ended 31 December 2006. The awards are subject to three year vesting. The Group considers 2 June 2006 as the grant date for 190,000 the Bank of Georgia shares in form of restricted GDRs and 16 February 2007 grant date for remaining 77,550 of Bank of Georgia ordinary shares in the form of restricted GDRs. The Bank of Georgia estimates that the fair value of the shares on 16 February 2007 was 45.74 Georgian Lari per share.

The Group's expense arising from EECP awards in respect of the years ended 31 December 2005 and 31 December 2006 was GEL 2,009 in the year ended 31 December 2006 and nil for the year ended 31 December 2005.

During the year the Group provided the Chairman of the Supervisory Board of the Bank with share based compensation under the terms of the three-year service agreement signed in 2004. The total amount of compensation during the year ended December 31, 2006 under the terms of the service agreement totaled to GEL 577 or 175,000 ordinary shares of the Bank. All shares are fully vested ordinary shares. The fair value of the shares at the grant date (August 18, 2004) was 3.299 Georgian Lari per share. The fair value of the shares was based on weighted average observable market prices for the shares traded at Georgian Stock Exchange at the Grant Date. Total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares are to vest over 3 year period on a monthly basis starting August 18, 2004. The remaining 100,000 shares fully vested as of December 31, 2005.

The Group's total share based payment expenses in respect of 2006 comprised GEL 2,586 (2005 nil).

(Thousands of Georgian Lari)

24. Segment reporting

The following table presents income and profit and certain assets and liability information regarding the Group's business segments for the year ended 31 December 2006

	Retail banking	*Corporate and investment banking*	*Asset and wealth management*	*Corporate center*	*Insurance*	*Intercompany elimination*	*Total*
Revenue							
External operating income							
Net interest income	31,585	31,882	906	2,341	–	–	66,714
Net fees and commission income	12,917	7,241	3,015	1,513	–	–	24,686
Net dealing gains	449	1,726	610	9,277	(120)	–	11,942
Other external revenues	140	289	44	1,518	8,491	–	10,482
Operating income from other segments	1	923	(178)	(70)	228	(904)	–
Total operating income	**45,092**	**42,061**	**4,397**	**14,579**	**8,599**	**(904)**	**113,824**
Credit loss expense	(4,396)	(8,433)	(398)	(539)	–	–	(13,766)
Result							
Segment Results	18,056	28,907	961	(10,746)	279		37,457
Unallocated expense							2,554
Profit Before tax							**34,903**
Income tax expense							8,131
Profit for the year							**26,772**
Assets and liabilities							
Segment assets	373,462	535,026	54,028	211,619	38,408		1,212,543
Unallocated assets							783
Total assets							1,213,326
Segment liabilities	263,057	455,616	72,444	14,533	24,680		830,330
Unallocated liabilities							8,138
Total liabilities							838,468
Other segment information							
Capital Expenditure:							
Property, Plant and equipment	15,545	5,181	7,266	7,072	455		35,519
Intangible fixed assets	761	279	28	75	820		1,963
Depreciation	2,045	520	491	1,315	70		4,441
Amortization	470	120	113	301	16		1,020

(Thousands of Georgian Lari)

24. Segment reporting (continued)

The following table presents income and profit and certain assets and liability information regarding the Group's business segments for the year ended 31 December 2005

	Retail banking	*Corporate and investment banking*	*Asset and wealth management*	*Corporate center*	*Insurance*	*Intercom any elimination*	*Total*
Revenue							
External operating income							
Net interest income	19,668	17,599	47	1,551	104	–	38,969
Net fees and commission income	7,543	6,511	573	418	127	–	15,172
Net dealing gains	214	2,032	(13)	4,175	99	–	6,507
Other external revenues	97	149	26	234	4,089	–	4,595
Operating income from other segments	–	19	–	–	402	(421)	–
Total operating income	**27,522**	**26,310**	**633**	**6,378**	**4,821**	**(421)**	**65,243**
Credit loss expense	(2,579)	(3,319)	–	(330)	–	–	(6,228)
Result							
Segment Results	11,600	18,023	310	(10,813)	676	–	19,796
Unallocated expense							3,061
Profit Before tax							**16,735**
Income tax expense							3,108
Profit for the year							**13,627**
Assets and liabilities							
Segment assets	194,199	203,310	411	50,010	12,320	–	460,250
Unallocated assets							2,570
Total assets							462,820
Segment liabilities	163,361	180,882	2,806	14,923	7,299	–	369,271
Unallocated liabilities							2,087
Total liabilities							371,358
Other Segment information							
Capital Expenditure:							
Property, Plant and equipment	6,870	1,723	15	3,312	78	–	11,998
Intangible fixed assets	89	272	1	141	506	–	1,009
Depreciation	1,628	414	15	981	37	–	3,075
Amortization	468	117	1	317	4	–	907

The Group has predominately one Geographical segment, Georgia; therefore no geographic segments disclosure is presented.

(Thousands of Georgian Lari)

25. 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 those 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:

	2006				*2005*			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*	*Georgia*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	40,370	61,790	5,885	108,045	46,787	9,291	1,158	57,236
Due from credit institutions	62,602	1,166	1,707	65,475	32,710	688	–	33,398
Loans to customers	684,842	–	–	684,842	297,376	–	–	297,376
Net investments in lease	9,091	–	–	9,091	4,314	–	–	4,314
Investment securities:								
- available-for-sale	9,819	67	1	9,887	8,327	–	–	8,327
- held-to-maturity	187,244	–	–	187,244	2,280	–	–	2,280
Other assets	136,866	8,062	3,814	148,742	59,352	171	366	59,889
	1,130,834	**71,085**	**11,407**	**1,213,326**	**451,146**	**10,150**	**1,524**	**462,820**
Liabilities:								
Owed to credit institutions	42,773	181,608	–	224,381	29,316	49,557	–	78,873
Owed to customers	559,646	–	–	559,646	269,952	–	–	269,952
Debt securities issued	1,073	–	–	1,073	1,143	–	–	1,143
Other liabilities	45,560	6,013	1,795	53,368	17,970	3,196	224	21,390
	649,052	**187,621**	**1,795**	**838,468**	**318,381**	**52,753**	**224**	**371,358**
Net balance sheet position	**481,782**	**(116,536)**	**9,612**	**374,858**	**132,765**	**(42,603)**	**1,300**	**91,462**

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

(Thousands of Georgian Lari)

25. Financial risk management (continued)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) and in total. These limits also comply with the minimum requirements of NBG. The Group's exposure to foreign currency exchange rate risk follows:

	2006				*2005*			
	GEL	*Freely convertible*	*Non convertible*	*Total*	*GEL*	*Freely convertible*	*Non convertible*	*Total*
Assets:								
Cash and cash equivalents	21,995	85,476	574	108,045	24,086	31,671	1,479	57,236
Due from credit institutions	61,852	3,623	–	65,475	32,402	957	39	33,398
Loans to customers	206,642	478,200	–	684,842	85,189	212,187	–	297,376
Net investment in lease		9,091	–	9,091	–	4,314	–	4,314
Investment securities:								
- available-for-sale	9,820	67	–	9,887	8,327	–	–	8,327
- held-to-maturity	187,244	–	–	187,244	2,280	–	–	2,280
Other assets	127,071	21,649	22	148,742	53,912	5,893	84	59,889
	614,624	**598,106**	**596**	**1,213,326**	**206,196**	**255,022**	**1,602**	**462,820**
Liabilities:								
Owed to credit institutions	21,536	202,845	–	224,381	5,023	73,823	27	78,873
Owed to customers	159,542	399,982	122	559,646	76,495	193,416	41	269,952
Debt securities issued	1,073	–	–	1,073	1,143	–	–	1,143
All other liabilities	28,757	24,611	–	53,368	15,667	5,723	–	21,390
	210,908	**627,438**	**122**	**838,468**	**98,328**	**272,962**	**68**	**371,358**
Net balance sheet position	**403,716**	**(29,332)**	**474**	**374,858**	**107,869**	**(17,941)**	**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.

The Group's principal cash flows (revenues, operating expenses) are largely generated in Georgian Lari and US Dollars. As a result, future movements in the exchange rate between the Georgian Lari and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realise investments in non-monetary assets as measured in USD in these financial statements.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee. The Group sets limits on the level of mismatch of interest rate repricing that may be undertaken.

(Thousands of Georgian Lari)

25. Financial risk management (continued)

Interest rate risk (continued)

The table below summarizes the Group's exposure to interest rate risk as at December 31, 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.

	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	52,612	54,290	1,143	–	–	–	108,045
Due from credit institutions	168	44,524	4,812	12,772	2,992	207	65,475
Loans to customers	–	102,471	92,210	192,714	232,653	64,794	684,842
Net investment in lease	–	28	–	148	8,198	717	9,091
Investment securities:	–	–	–	–	–	–	–
- available-for-sale	–	5,648	–	4,239	–	–	9,887
- held-to-maturity	–	68,603	39,597	51,441	27,603	–	187,244
	52,780	**275,564**	**137,762**	**261,314**	**271,446**	**65,718**	**1,064,584**
Liabilities:							
Owed to credit institutions	927	5,690	63,922	84,728	25,804	43,310	224,381
Owed to customers	201,697	206,968	39,143	90,047	21,135	656	559,646
Debt securities issued	–	–	–	1,073	–	–	1,073
	202,624	**212,658**	**103,065**	**175,848**	**46,939**	**43,966**	**785,100**
Net balance sheet position	**(149,844)**	**62,906**	**34,697**	**85,466**	**224,507**	**21,752**	**279,484**
Accumulated gap	***(149,844)***	***(86,938)***	***(52,241)***	***33,225***	***257,732***	***279,484***	

	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 balance sheet position	**50**	**(70,419)**	**242**	**15,234**	**75,440**	**32,416**	**52,963**
Accumulated gap	***50***	***(70,369)***	***(70,127)***	***(54,893)***	***20,547***	***52,963***	

(Thousands of Georgian Lari)

25. Financial risk management (continued)

Interest rate risk (continued)

As of December 31, 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	*Other foreign currencies*	*GEL*	*Other foreign currencies*
Due from credit institutions	12%	5%	8%	2%
Investment securities:				
- held-to-maturity	12%	–	14%	–
- Available-for-sale	15%	–	13%	–
Loans to customers	23%	16%	21%	15%
Owed to credit institutions	6%	8%	10%	7%
Owed to customers	9%	8%	10%	8%

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. This risk of liquidity is managed through the Assets & 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.

The Group's 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.

	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	101,224	4,748	2,073	–	–	–	–	108,045
Due from credit institutions	39,894	5,750	4,778	11,854	2,992	207	–	65,475
Loans to customers	–	102,471	92,210	192,714	232,653	41,644	23,150	684,842
Net investment in lease	–	28	–	148	8,198	652	65	9,091
Investment securities:								
- available-for-sale	–	5,534	–	4,353	–	–	–	9,887
- held-to-maturity	–	68,603	39,597	51,441	27,603	–	–	187,244
	141,118	**187,134**	**138,658**	**260,510**	**271,446**	**42,503**	**23,215**	**1,064,584**
Liabilities:								
Owed to credit institutions	2,920	3,697	5,542	88,089	65,266	58,867	–	224,381
Owed to customers	361,632	43,775	41,692	89,548	21,252	1,747	–	559,646
Debt securities issued	–	–	–	1,073	–	–	–	1,073
	364,552	**47,472**	**47,234**	**178,710**	**86,518**	**60,614**	**–**	**785,100**
Net balance sheet position	**(223,434)**	**139,662**	**91,424**	**81,800**	**184,928**	**(18,111)**	**23,215**	**279,484**
Accumulated gap	***(223,434)***	***(83,772)***	***7,652***	***89,452***	***274,380***	***256,269***	***279,484***	

(Thousands of Georgian Lari)

25. Financial risk management (continued)

Liquidity risk (continued)

	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 balance sheet 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 Group's principal sources of liquidity are as follows:

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

As of December 31, 2006, deposits amounted to GEL 559,646 (December 31, 2005 – GEL 269,952) and represented 67% (December 31, 2005 – 73%) of Group's 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 December 31, 2006, amounts owed to other credit institutions accounted for GEL 224,381 (December 31, 2005 – GEL 78,873) and represented 27 % (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 Group's present requirements.

(Thousands of Georgian Lari)

26. 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 sale or liquidation. As no readily available market exists for a large part of the Bank'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 Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2006		*2005*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Amounts due from credit institutions	65,475	65,475	33,398	33,398
Loans to customers	684,842	684,842	297,376	297,376
Investment securities:				
- available-for-sale	9,887	9,887	8,327	8,327
- held-to-maturity	187,244	187,244	2,280	2,280
Financial liabilities				
Due to credit institutions	224,381	224,381	78,873	78,873
Due to customers	559,646	559,646	269,952	269,952
Debt securities issued	1,073	1,073	1,143	1,143

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts due from and 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, 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 December 31, 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 December 31, 2006 and December 31, 2005, fair value of amounts owed to customers approximates their carrying value.

Debt securities issued

For debt securities issued, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

(Thousands of Georgian Lari)

27. 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:

	2006				*2005*			
	Share-holders	*Entities under common control*	*Asso-ciates*	*Key manage-ment personnel*	*Share-holders*	*Entities under common control*	*Asso-ciates*	*Key manage-ment personnel*
Loans outstanding at January 1, gross		**16,733**	**3,272**	**1,143**	**–**	**6,190**	**966**	**652**
Loans issued during the year		20,981	11,494	591	–	14,201	2,720	918
Loan repayments during the year		(25,949)	(8,756)	(1,422)	–	(3,658)	(414)	(427)
Loans outstanding at 31 December, gross		**11,765**	**6,010**	**312**	**–**	**16,733**	**3,272**	**1,143**
Less: allowance for impairment at 31 December		(129)	(185)	(6)	–	(1,257)	(116)	(23)
Loans outstanding at 31 December, net		**11,636**	**5,825**	**306**	**–**	**15,476**	**3,156**	**1,120**
Deposits at 1 January		**252**	**1,751**	**113**	**–**	**2**	**1,837**	**12**
Deposits received during the year	11,281	57,388	36,246	13,672	–	252	23,457	5,062
Deposits repaid during the year		(55,978)	35,053	(6,533)	–	(2)	(23,543)	(4,961)
Deposits at 31 December	**11,281**	**1,662**	**2,944**	**7,252**	**–**	**252**	**1,751**	**113**
Current accounts at 31 December								
Interest income on loans		542	634	10	–	1,312	255	118
Impairment charge for loans		101	(55)	17	–	1,058	(221)	8
Interest expense on deposits	483	1	147	157	–	1	71	5
Commitments and guarantees issued		–	–		–	–	–	–
Commitments and guarantees received		166	–	–	–	2,932	8	–
Fee and commission income		–	–	–	–	28	z	2

In April, 2006, Group has transferred 12 percent share in it's subsidiary Intertour LLC free of charge to it's general director. Net assets of Intertour LLC comprised (151) GEL at the date of transfer.

All the other transaction has been carried out on the arm's length basis.

Compensation of key management personnel was comprised of the following:

	2006	*2005*
Salaries and other short-term benefits	3,723	942
Share based payment compensation	2,586	1,017
Recruitment costs	24	–
Social security costs	282	392
Total key management compensation	**6,615**	**2,351**

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, 2006 totaled to GEL 2,009 or 68,660 ordinary shares of the Bank. The fair value of the shares at the grant date (June 2, 2006) was 12.85 Georgian Lari per share (Note 23).

27. Related party transactions (continued)

During the year the Group provided the Chairman of the Supervisory Board of the Bank with share based compensation under the terms of the three-year service agreement signed in 2004. The total amount of compensation during the year ended December 31, 2006 under the terms of the service agreement totaled to GEL 577 or 175,000 ordinary shares of the Bank. All shares are fully vested ordinary shares. The fair value of the shares at the grant date (August 18, 2004) was 3,299 Georgian Lari per share. The fair value of the shares was based on weighted average observable market prices for the shares traded at Georgian Stock Exchange at the Grant Date. Total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares are to vest over 3 year period on a monthly basis starting August 18, 2004. The remaining 100,000 shares fully vested as of December 31, 2005.

28. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of December 31, 2006 and 2005, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, exceeded the recommended minimum ratio of 8% as of December 31, 2006 and December 31, 2005.

29. Subsequent events

Funding obtained

In January 2007, the Bank drew down US$ 12.5 million from the US$ 12.5 million Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO") loan facility entered into by the Bank in December 2006.

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

In February 2007, BG Finance B.V., private company with limited liability incorporated under the laws of The Netherlands, issued an aggregate principal amount of US$ 200 million 9.0% Loan Participation Notes (the "LPNs") due in 2012. The LPNs were issued for the sole purpose of financing a loan to the Bank pursuant to a loan agreement dated 6 February 2007 between BG Finance B.V. and the Bank. These LPNs are listed on the official list of the UK Listing Authority and traded on the London Stock Exchange.

Acquisition

On June 23, 2006, the Group signed a memorandum of understanding with the shareholders of a Ukrainian bank, which gives the Group the exclusive right to negotiate the purchase of the Ukrainian bank. On December 29, 2006, the Group signed an amended non-binding memorandum of understanding pursuant to which the Group has the exclusive right to increase its equity interest in the Ukrainian bank to 98.15%. The Group's purchase of the shares in the Ukrainian bank is subject to signing binding sale and purchase agreements with the shareholders of the Ukrainian bank, as well as obtaining required corporate, regulatory and governmental approvals. On December 27, 2006, the Group received permission from the Antimonopoly Commission of Ukraine to acquire more than 50% of the Ukrainian bank. On January 15, 2007, the Group increased its ownership interest in the Ukrainian bank from 2.82% to 9.92%. The Group's total investment in the Ukrainian bank's equity currently amounts to approximately US$ 7.0 million.

In February 2007, JSC SB Real Estate (the Group's subsidiary) purchased 100% stake in Vere + Ltd., a limited liability company incorporated under the laws of Georgia, whose main asset is a 4,946 m2 land plot in the centre of Tbilisi, for the consideration of US$ 3.5 million. Subsequent to this acquisition the Bank has entered into a binding memorandum with JSC SB Real Estate to purchase 4/5 of the land plot for the purpose of construction of the new headquarters for the Bank.

In March 2007 JSC Galt & Taggart Capital (the Group's subsidiary through which merchant banking activities are carried out) issued 1,001,067 new ordinary shares raising GEL 1.8 million. The Group subscribed to 767,978 newly issued shares maintaining its stake in JSC Galt & Taggart Capital at 77.0 %.

Members of the Supervisory Board and Management Board

Members of the Supervisory Board and Management Board

Supervisory Board

Lado Gurgenidze
Chairman of the Supervisory Board

Nicholas Enukidze
Vice-Chairman of the Supervisory Board

Alan Hirst
Member of the Supervisory Board

Jyrki Talvitie
Member of the Supervisory Board

Ian Hague
Member of the Supervisory Board

Management Board

Irakli Gilauri
Chief Executive Officer

Irakli Burdiladze
Deputy Chief Executive Officer

Ramaz Kukuladze
Deputy Chief Executive Officer

Sulkhan Gvalia
Deputy Chief Executive Officer

David Vakhtangishvili
Chief Financial Officer

Avto Namicheishvili
Group Legal Counsel

Mikhail Saakashvili (center), the President of Georgia, opens the working day at the London Stock Exchange as Bank of Georgia lists its shares in the form of GDRs on 29 November 2006

From left: Irakli Gilauri, Ian Hague, Lado Gurgenidze, Nicholas Enukidze and Jyrki Talvitie

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