

**Bank of Georgia Group**  
**Consolidated Financial Statements**

*Year ended December 31, 2006*

**CONSOLIDATED BALANCE SHEET****As of December 31, 2006***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Assets</b>			
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
<b>Total assets</b>		<b>1,213,326</b>	<b>462,820</b>
<b>Liabilities</b>			
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		7,387	2,087
Provisions		672	975
Other liabilities	14	44,558	18,328
<b>Total liabilities</b>		<b>838,468</b>	<b>371,358</b>
<b>Equity</b>			
Share capital	18	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
<b>Total equity attributable to shareholders of the Bank</b>		<b>370,641</b>	<b>90,366</b>
Minority interest		4,217	1,096
<b>Total equity</b>		<b>374,858</b>	<b>91,462</b>
<b>Total equity and liabilities</b>		<b>1,213,326</b>	<b>462,820</b>

The accompanying notes together with Report of Independent Auditors which is an integral part of these consolidated financial statement find at our web site [www. bog.ge/ir](http://www.bog.ge/ir)

**CONSOLIDATED STATEMENT OF INCOME****For the year ended December 31, 2006***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Interest income</b>			
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
		<u>100,271</u>	<u>51,832</u>
<b>Interest expense</b>			
Amounts due to customers		19,245	9,162
Amounts due to credit institutions		14,128	3,893
Debt securities issued		176	26
		<u>33,549</u>	<u>13,081</u>
<b>Net interest income</b>		<u>66,722</u>	<u>38,751</u>
Impairment of interest earning assets	13	13,766	6,228
<b>Net interest income after impairment of interest earning assets</b>		<u>52,956</u>	<u>32,523</u>
Fee and commission income		28,139	16,753
Fee and commission expense		(3,453)	(2,385)
<b>Net fee and commission income</b>	20	<u>24,686</u>	<u>14,368</u>
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
<b>Other non interest income</b>		<u>22,424</u>	<u>11,101</u>
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
<b>Other non-interest expense</b>		<u>65,163</u>	<u>41,257</u>
<b>Income (loss) before income tax expense</b>		<u>34,903</u>	<u>16,735</u>
Income tax expense	12	8,131	3,108
<b>Net income (loss) for the year</b>		<u>26,772</u>	<u>13,627</u>
Attributable to:			
- shareholders of the Group		26,983	13,838
- minority interest		(211)	(211)
		<u>26,772</u>	<u>13,627</u>
<b>Earnings (loss) per share:</b>			
- basic		1.622	1.138
- diluted		1.445	1.138

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to shareholders of the Group</i>					<i>Minority interest</i>	<i>Total equity</i>	
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Treasury shares</i>	<i>Retained earnings</i>	<i>Other reserves</i>			<i>Total</i>
<b>December 31, 2004</b>	<b>11,273</b>	<b>13,376</b>	<b>(73)</b>	<b>23,911</b>	<b>5,492</b>	<b>53,979</b>	<b>1,481</b>	<b>55,460</b>
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	–	–	–	–	–	–	–	–
<b>Total income and expense recognised directly in equity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>123</b>	<b>(123)</b>	<b>–</b>	<b>–</b>	<b>–</b>
Net income for the year	–	–	–	13,838	–	13,838	(211)	13,627
<b>Total income and expense for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13,961</b>	<b>(123)</b>	<b>13,838</b>	<b>(211)</b>	<b>13,627</b>
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)
<b>December 31, 2005</b>	<b>14,729</b>	<b>32,922</b>	<b>(81)</b>	<b>37,427</b>	<b>5,369</b>	<b>90,366</b>	<b>1,096</b>	<b>91,462</b>
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	–	–	–	–	–	–	–	–
<b>Total income and expense recognised directly in equity</b>	<b>175</b>	<b>(2,697)</b>	<b>68</b>	<b>112</b>	<b>(112)</b>	<b>(2,454)</b>	<b>–</b>	<b>(2,454)</b>
Net income for the year	–	–	–	26,983	–	26,983	(211)	26,772
<b>Total income and expense for the year</b>	<b>175</b>	<b>(2,697)</b>	<b>68</b>	<b>27,095</b>	<b>(112)</b>	<b>24,529</b>	<b>(211)</b>	<b>24,318</b>
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)
<b>December 31, 2006</b>	<b>25,202</b>	<b>277,440</b>	<b>(1,004)</b>	<b>63,746</b>	<b>5,257</b>	<b>370,641</b>	<b>4,217</b>	<b>374,858</b>

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**CONSOLIDATED STATEMENT OF CASH FLOWS****For the year ended December 31, 2006***(Thousands of Georgian Lari)*

<b>Cash flows from operating activities</b>		
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)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>62,147</b>	<b>27,951</b>
<i>Net (increase)/decrease in operating assets</i>		
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)
<i>Net increase / (decrease) in operating liabilities</i>		
Amounts due to credit institutions	136,065	26,870
Amounts due to customers	248,982	12,269
Other liabilities	3,774	8,905
<b>Net cash flows from operating activities before income tax</b>	<b>9,917</b>	<b>(64,206)</b>
Income tax paid	(203)	(387)
<b>Net cash from/(used in) operating activities</b>	<b>9,714</b>	<b>(64,593)</b>
<b>Cash flows from investing activities</b>		
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)
<b>Net cash from/(used in) investing activities</b>	<b>(218,026)</b>	<b>(4,383)</b>
<b>Cash flows from financing activities</b>		
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)
<b>Net cash from/(used in) financing activities</b>	<b>259,228</b>	<b>22,499</b>
Effect of exchange rates changes on cash and cash equivalents	(107)	966
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>50,809</b>	<b>(45,511)</b>
<b>Cash and cash equivalents, beginning</b>	<b>57,236</b>	<b>102,747</b>
<b>Cash and cash equivalents, ending</b>	<b>108,045</b>	<b>57,236</b>



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	<i>Notes</i>	<i>2006</i>	<i>2005</i>
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<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		404	(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)
<b>Net cash from/(used in) investing activities</b>		<b>(217,881)</b>	<b>(4,383)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		259,770	21,641
Purchase of treasury shares		(3,347)	(91)
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Purchase of additional interest in existing subsidiaries, net of cash acquired		-	(550)
Sale of treasury shares		-	-
Proceeds from debt securities issued		-	1,143
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Dividends paid to shareholders of the Bank		(579)	(9)
<b>Net cash from/(used in) financing activities</b>		<b>259,228</b>	<b>22,499</b>
Effect of exchange rates changes on cash and cash equivalents		(107)	966
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>50,809</b>	<b>(45,511)</b>
<b>Cash and cash equivalents, beginning</b>		<b>57,236</b>	<b>102,747</b>
<b>Cash and cash equivalents, ending</b>	5	<b>108,045</b>	<b>57,236</b>

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the year ended December 31, 2006**

*(Thousands of Georgian Lari)*

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



*(Thousands of Georgian Lari)*