JSC Bank of Georgia announces important developments

JSC Bank of Georgia (LSE: BGEO; GSE: GEB) (the "Bank"), Georgia's leading universal bank, today made important announcements relating to the Bank's (i) expected financial performance for Q4 2009, including goodwill write-off and mark-down of certain real estate and other investments, (ii) management's operating targets for 2010, (iii) intention to pay dividends in respect of the 2010 financial year performance, and (iv) Bank of Georgia governance changes.

(i) Expected Financial Performance in Q4 2009

For Q4 2009, the management of the Bank expects pre-provision profit (excluding the write-offs and mark- downs referred to below) of around GEL 31.0 million and net provision expense of around GEL 28.0 million.

In Q4 2009 the Bank intends to book a total of GEL 104.1 million in goodwill write-offs and mark-downs of investments and real estate assets. The affected entities are: BG Bank (formerly Universal Bank of Development and Partnership) in Ukraine; Liberty Consumer ("LC"), an investment company focusing on the consumer sector in Georgia (65.2% owned by the Bank); SB Real Estate ("SBRE"), an investment company focusing on real estate in Georgia (52.1% owned by LC) and certain of the Bank's real estate assets.

The required periodic goodwill impairment tests conducted by the Bank on all of its acquisitions resulted in the write-off of GEL 68.0 million in goodwill that had been carried based on a provisional price allocation under IFRS 3 in relation to the Bank's acquisition of BG Bank in 2007. The amount to be written off represents all of the goodwill associated with BG Bank. As a result of this write-off, the weakening of the Ukrainian Hryvna against the Georgian Lari and BG Bank's expected net loss for 2009 the Bank's allocated capital in respect of BG Bank is expected to amount to approximately GEL 33.0 million as of the end of Q4 2009.

LC was negatively affected by an overall decline in its market environment in 2H 2008 and 1H 2009 as Georgia's GDP declined by 8.5% on a year-on-year basis in 1H 2009. This will result in a write-down of GEL 14.1 million of LC's investments in Q4 2009.

The recent re-valuation of the real estate assets held by SBRE, resulted in a further mark-down in the amount of GEL 15.4 million. In addition, the Bank will mark-down the value of certain other real estate held by it in the amount of GEL 6.5 million.

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GEL'000	Historical Cost	Value Before Write Down (VBWD)	Write Down (WD)	Value After Write Down (VAWD)	WD/VBWD	VAWD/HC
LC Investments	24,287	28,265	(13,525)	14,740	-47.8%	60.7%
SBRE investments	24,435	47,356	(15,396)	31,960	-32.5%	130.8%
Other real estate assets	20,762	20,762	(6,507)	14,255	-31.3%	68.7%
Total	**69,484**	**96,384**	**(35,428)**	**60,956**	**-36.8%**	**87.7%**

The Bank originally invested in total of GEL 16.9 million in LC and SBRE. Net asset value of LC and SBRE attributable to the Bank after the write down will amount to GEL 20.5 million, well above the historical cost of the Bank's investment.

(ii) Management's operating targets for 2010

Having regard for the recent stabilisation of the operating environment the Bank's management is now targeting a pre-provision profit for 2010 around GEL 135 million and further estimates net provision expense of around GEL 50 million for 2010. These targets assume that the overall improving trend in the operating environment in Georgia will continue in 2010, and in particular that:

- 2010 real GDP growth of 2% with a 3.2% inflation rate, in line with the latest estimates by the International Monetary Fund;
- The GEL/US$ exchange rate remains stable during 2010; and
- Geo-political stability is sustained in the region.

(iii) Intention to pay dividends in respect of 2010 financial year performance

Notwithstanding the write downs described above, the Bank continues to operate with a robust capital position by reference to international and local regulatory requirements. Consequently, in the context of the expected normalization of the operating performance, the Supervisory Board of the Bank intends to propose the establishment of a progressive dividend policy and intends to recommend a GEL 0.30 dividend per share to the Annual General Meeting of Shareholders in 2011 in respect of 2010 financial year performance, subject to management achieving 2010 financial targets as outlined above. The Bank anticipates increasing dividend payments in the future. The Bank also notes that its new dividend policy is to set dividend payments while taking into consideration the need to maintain proper balance between the ability to finance growth and implementing a progressive dividend policy.

(iv) Governance Changes

In a move to improve its governance, Bank of Georgia is introducing a classical two-tier board structure with the management board, led by the CEO, and Supervisory Board comprising only non-executive directors, including the Chairman. The current CEO/Executive Chairman management structure has served the Bank well during the phase when it was building its internal structures. The new governance structure will be more effective now that the management team reporting to Irakli Gilauri is complete. Transition to the new governance structure will be completed following the Annual General Meeting of Shareholders' planned for May/June 2010 (the "2010 AGM").

Bank of Georgia's Executive Chairman of the Supervisory Board, Nicholas Enukidze, with the Bank's support and best wishes, has decided that, effective with the expiry of his service agreement at the 2010 AGM, he will step down from his executive function.

Nicholas Enukidze has indicated his willingness and desire to remain as a Supervisory Board member of Bank of Georgia, and the Supervisory Board intends to propose him to the shareholders for re-election. Subject to Nicholas Enukidze being re-elected to the Bank's supervisory board, the supervisory board intends to nominate Mr. Enukidze to be elected as its non-executive chairman following the 2010 AGM.

Nicholas Enukidze has made major contributions to Bank of Georgia over the last two years in helping to set strategic direction, actively participating in the process of going public, guiding Bank of Georgia through the financial and geo-political crises faced in 2008 and 2009, and strengthening the overall management team. The Bank looks forward to Nicholas' continuing support in his new role. The coming six months will assure a smooth transition, with Irakli Gilauri and the management team gradually assuming Nicholas' functions with his support.

Also at the 2010 AGM, Irakli Gilauri will step down as a member of the Supervisory Board, again better conforming the Bank's governance to the classical two-tier, supervisory board/management board structure.

Finally, Al Breach has been engaged by Bank of Georgia as an advisor to the Supervisory Board. Al is a highly respected strategist and economist in emerging markets, whose presence will give the Bank access to world class macro-economic insight. Background information on Al is set forth below. Al has indicated his willingness to join the supervisory board, and Bank of Georgia's board intends to propose Al Breach's candidacy to the shareholders as a supervisory board member at the May 2010 AGM — thereby effectively filling the seat left vacant when Irakli Gilauri steps down. Al's proposed nomination follows the recent strengthening of the board in June through the addition of David Morrison.

"For past two years Irakli Gilauri (CEO) and I have been managing and building Bank of Georgia within CEO/Executive Chairman management structure. The Bank is now ready to make another step forward and implement more traditional two-tier board governance, which brings the Bank's governance even closer to best market practice. This is a strong indicator of how much the bank has grown as institution over past years. I am very proud of our team and have full confidence that Irakli and the management team will do fantastic job further developing our bank and delivering value to shareholders," commented Nicholas Enukidze, Chairman of Supervisory Board of Bank of Georgia

"We remain geared for growth as we observe improvements in the operating environment in the underleveraged Georgian market. The new dividend policy will serve to further increase capital management discipline as we consider investing in our growth going forward. We also believe that our policy in respect of write downs and our continued efforts to remain at the forefront of regional corporate governance best practice will further enhance investor perceptions of the Bank," commented Irakli Gilauri, CEO of Bank of Georgia

About Al Breach (39):
Al Breach is Chairman of TheBrowser.com (a web-based filter of choice current affairs writing that he co-founded in 2008), on the board of Vostok Nafta (since 2007) and a Swiss-based investor. Until October 2007 he was Head of Research, Strategist and Economist for UBS Russia and Managing Director. He joined what was then Brunswick UBS in January 2003 as chief economist. He and the team he led won II and Extel surveys of the best Russia strategist / economist / team on repeated occasions. Prior to Brunswick UBS, Al was Russia & FSU economist at Goldman Sachs from late 1998 to 2002; for much of the period the one Goldman professional based in Moscow. Before Goldman Sachs, from July 1996, he wrote the journal Russian Economic Trends at RECEP, a Russian government affiliated, EU-funded, LSE / SITE run economics journal based in Moscow. Along with Moscow and Switzerland, Al, a Londoner, has lived in Beijing, Tokyo, New York and Zimbabwe. He graduated from Edinburgh University in Mathematics with Philosophy in 1993 top of his class. He then did an MSc in Economics at the London School of Economics (LSE), graduating in 1994.

About David Morrison (57):
A business lawyer whose long experience as one of the managing partners of the European offices of the prestigious international law firm Sullivan & Cromwell adds an important dimension to the Bank's Supervisory Board. David's law practice was focussed on high-level advice to public companies in a transactional context, from M&A to capital raisings. In literally hundreds of transactions, a wide variety of investment banks and corporates counted on him as their key advisor.

Headline deals included major European privatizations—among them Renault, Deutsche Telekom, Swisscom, Deutsche Post, and Austrian Post. Key banking clients included Banco Espirito Santo in Portugal and Germany's development bank KfW. David has the rare distinction of having been named by major directories as a leading lawyer in two jurisdictions—Germany and France. After 28 years, David retired from S&C in 2007 to pursue other interests. In 2008 he became Executive Director of the Caucasus Protected Areas Fund, an NGO that forms the private pole of separate public-private partnerships with the governments of Georgia and Armenia to support nature protection in the richly bio-diverse Caucasus.