

Rating Action: Bank of Georgia

MOODY'S ASSIGNS TO BANK OF GEORGIA B3/NP FOREIGN CURRENCY, Baa3/P-3 LOCAL CURRENCY AND E+ FINANCIAL STRENGTH RATINGS; OUTLOOK IS STABLE ON ALL RATINGS

First-Time Ratings

Limassol, April 27, 2006 -- Moody's Investors Service has assigned B3 and Baa3 long-term, and Not-Prime and Prime-3 short-term foreign and local currency deposit ratings, respectively, and an E+ Financial Strength Rating (FSR) to Bank of Georgia (BoG), the second-largest bank in Georgia. The outlooks for the ratings are stable.

According to Moody's, BoG's B3 long-term foreign currency deposit rating factors in -- and is constrained by -- foreign currency transfer risk inherent in such instruments, and is based on an assessment of local economic and political factors. Therefore, the B3 long-term foreign currency bank deposit rating could only be upgraded as a result of a reduction in the above-mentioned risk factors.

At the same time, the bank's Baa3/Prime-3 long- and short-term local currency ratings are unconstrained by the foreign currency transfer risk and are the highest currently attainable by a Georgian bank. These ratings reflect BoG's systemic importance as the second-largest financial institution in the Georgian banking sector with sizeable market share of ca. 20% as of 1 March 2006 and hence, in Moody's view, a high likelihood that BoG will receive financial support, in case of need, from the Georgian authorities. These local currency ratings depend on the rating agency's assessment of (i) the degree to which the authorities' ability to support an important bank may be limited due to a monetary regime which does not permit the creation of unlimited quantities of local currency; and (ii) the risk of a local currency deposit freeze.

The bank's E+ FSR, which is a measure of BoG's intrinsic strength on a standalone basis excluding external support factors, is underpinned by (i) its well-recognised name and rapidly developing franchise in its domestic market; (ii) the dramatically improved quality of management since a team of experienced Western-trained professionals took control of the bank; (iii) its diversified and transparent shareholder structure with notable influence exerted by the foreign institutional investors; (iv) strengthening credit policies and risk management function which could help to prevent asset quality problems from recurring in the future; (v) the profit rebound following the loss associated with the large loan impairment charges in 2004; (vi) its relatively well diversified loan portfolio and deposit base; and (vii) its moderate level of related-party exposure compared to many of the bank's Commonwealth of Independent States (CIS) peers.

At the same time the bank's E+ FSR is constrained by (i) its volatile operating environment which considerably elevates the level of risks faced by BoG in an adverse scenario; (ii) its relatively small size, with profitability reliant on very wide interest margins with economies of scale and scope yet to be realised; (iii) its potentially more volatile asset quality, which is also weaker than for the bank's CIS peer group (though impaired loans are relatively well provisioned and their share has declined) even after the major portfolio clean-up; (iv) its unseasoned loan portfolio on the back of very rapid growth, especially in the retail and SME sectors, together with the relatively risky profile of the bank's borrowers; (iv) the relatively large, albeit shrinking, contractual liquidity gaps in the 3 month maturity band, due to the still significant, though declining, proportion of short-term funding; and (v) evolving IT systems.

Headquartered in Tbilisi, the capital of Georgia, Bank of Georgia reported total assets of US\$257 million in accordance with IFRS as at 31 December 2005.

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