Fitch Assigns Bank of Georgia's Debut Eurobond Expected 'B' Rating

Fitch Ratings-London/Moscow-22 January 2007: Fitch Ratings has today assigned BG Finance B.V.'s upcoming senior notes issue expected ratings of Long-term 'B' and Recovery 'RR4'. The issue is to be used solely for financing a loan to JSC Bank of Georgia ("BoG"), which has been today upgraded (see separate announcement on www.fitchratings.com) to foreign and local currency Issuer Default ratings of 'B' from 'B-' (B minus).

BG Finance will only pay noteholders amounts (principal and interest) received from BoG under the loan agreement. BG Finance will grant security over the loan to a trustee, the Bank of New York, for the benefit of noteholders. The final ratings of the issue are contingent on receipt of final documentation conforming materially to information already received.

Noteholders' claims will rank at least equally with the claims of other senior unsecured creditors of BoG, save those preferred by relevant (bankruptcy, liquidation etc.) laws. Under Georgian law, term and demand deposits (but not, Fitch understands, current accounts) of retail and corporate customers and banks, as well as all claims of the National Bank of Georgia, rank ahead of those of other senior unsecured creditors. At end-9M06, such balances comprised around 36% of BoG's liabilities, according to the bank's reviewed IFRS accounts. This degree of subordination is not sufficient for Fitch to assign lower Recovery and Long-term ratings than 'RR4' and 'B' to the current transaction. However, the agency notes that should the degree of subordination of noteholders increase (e.g. due to a substantial increase in the share of BoG's customer deposits as opposed to current accounts or as a result of Georgian bank insolvency practice suggesting that current accounts will be treated as senior to noteholders), the ratings of the notes could come under pressure. That said, at present such changes are not expected by Fitch.

The loan agreement contains a negative pledge clause, which allows for a certain degree of securitisation by BoG and its subsidiaries. In the event of any securitisation, Fitch comments that the nature and extent of any over-collateralisation would be assessed by the agency for any potential impact on unsecured creditors. The loan agreement also limits mergers and disposals by BoG and its subsidiaries and obliges them to carry out any transactions with affiliates on market terms.

BoG has also covenanted to limit any equity distributions to 50% of consolidated IFRS net profit, investments in non-banking subsidiaries to 20% of consolidated IFRS assets, guarantees issued in favour of any subsidiaries to 1% of consolidated IFRS assets and exposure to any single counterparty to 20% of IFRS capital. In addition, the bank has covenanted to maintain Basel I Tier 1 and Total capital-to-risk weighted assets ratios at a minimum of 10% and 12%, respectively.

The noteholders are also provided with a put option, should a rating downgrade or withdrawal be triggered by certain factors.

BoG is a systemically important bank with an approximate 28% share in banking sector assets at end-November 2006. The bank is broadly held, primarily by foreign portfolio investors.

Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at www.fitchratings.com/recovery.

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