



The Bank of Georgia

At The Beginning Of A Growth Spurt

BUY

17 Apr 2006

USD 5.47

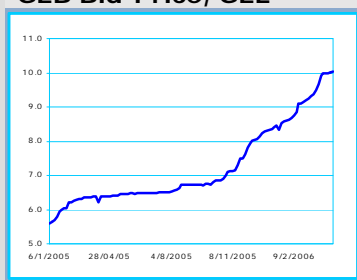
12M Target

USD 8.50

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The only investable Georgian banking stock and the country's second-largest lender, the Bank of Georgia, is going to issue ADRs and is preparing for listing on AIM in London. The bank's strong growth, leading market position and solid fundamentals promise a 50% upside during 12 months. We initiate coverage with a Buy recommendation.

GEB Bid-Price, GEL



Market Information

GES	GEB
No of Shares, mln	15.5
Market price, USD	5.47
MCap, USD mln	84.6
Free Float, %	17.9

Stock Ownership

Firebird Fund	21.7%
East Capital	14.8%
Victor Gelovani	12.6%
EBRD	11.6%
Other	21.4%

Ratios 2005

Net Interest Margin	8.2%
Net Income Margin	22.0%
ROE	18.8%
Cost/Income	64.6%

Cheap, For Now. For those embarrassed by demanding valuations of Ukrainian banks we suggest taking a look at The Bank of Georgia's (BoG) sexy P/B ratio. BoG's stock price has grown by 80% over the last 18 months. Despite this growth, BoG remains notably undervalued versus its CEE peers. Comparative valuation, based on 2006E P/E and P/BV multiples from CEE peers reveals a 35% to 62% discount. We believe that the Georgian banking offers a great deal of catch up potential and this combined with BoG's solid fundamentals will bring the bank's stock in line with CEE levels in the near future.

A Market Leader. For the past few years, the Bank of Georgia has demonstrated solid growth, outpacing the whole banking system. The bank's total asset growth was 38% CAGR for 2003-2005, above the industry average of 32%. This allowed the bank to expand its market share from 15.8% in 2002 to 18% and preserve its leading position as the second-largest Georgian bank.

New Team. New Vision. In September, 2004 a new team took over BoG. Under the new leadership the bank embarked on an aggressive turnaround strategy, focusing on both organic growth and acquisition opportunities with the goal of spearheading banking sector consolidation in Georgia and diversifying its portfolio of financial services.

Financial Sector Consolidator. Since October, 2004, the Bank of Georgia has made a number of acquisitions in the Georgian financial sector. The bank has taken control of two mid-sized banks, Georgia's third largest insurance company, the second-largest leasing company, the card processing company and the country's top investment bank.

Integrated Business Model. After making its acquisitions, the bank organized their activities into an integrated business model by dividing its operations into five strategic business units: Retail Banking, Corporate & Investment Banking, Insurance, Asset & Wealth Management. The model allows BoG to benefit from shared expertise, cross-sell synergies, shared services and common infrastructure.

KEY FINANCIAL DATA, USD mln

	Assets	Net Loans	Total Revenue	Net Income
2005	254.5	162.6	33.9	7.5
2006	357.3	234.6	35.8	8.3
2007	480.8	318.8	46.7	10.5
Spot Exch Rate	1.82			

KEY RATIOS

	P/E	P/BV	P/Loans	P/Deposits
2005	12.0	1.7	0.5	0.5
2006	10.5	1.2	0.3	0.4
2007	8.3	1.2	0.3	0.3

This version is a copy of original report corrected for some inaccuracies found in the original publication. The scope of changes does not affect the integrity of the original version and does not impair investment recommendation, target price and projections. The changes are as follows:

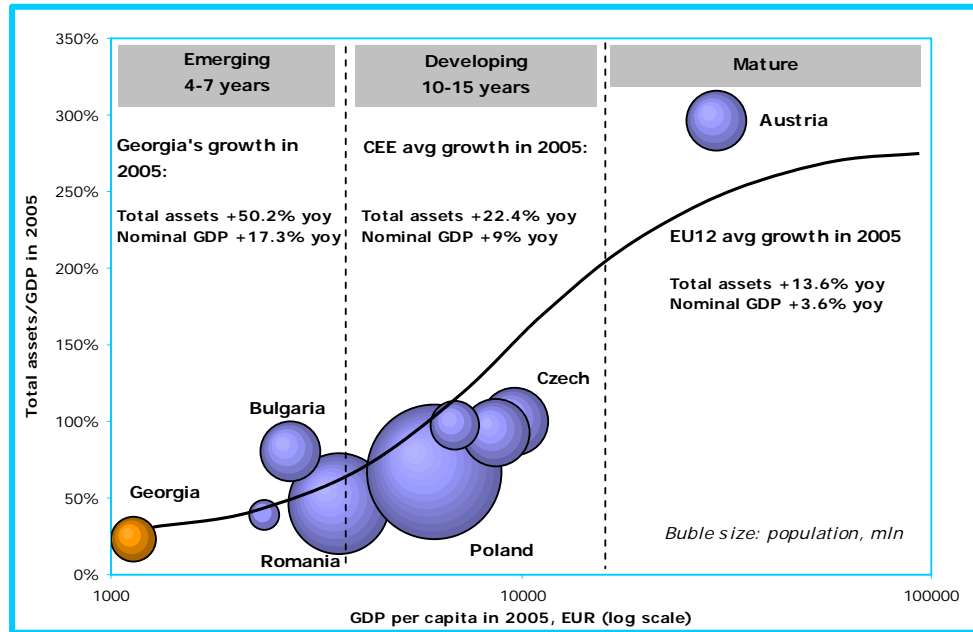
1. The GEL/USD spot exchange rate, at the date of the original publication, is 1.82 rather than 2.16
2. The number of shares is 15.5 mln rather than 15.2 mln
3. Stock ownership proportions have been adjusted within +/- 1-2% range

Georgian Banking: Growth, Growth & More Growth

The Georgian banking sector gained momentum at the advent of the new millennium, driven by a favorable economic environment, the privatization of all state-owned banks, market consolidation, the cleaning up of loan portfolios, and the entrance of foreign investors.

Over the past few years the banking system in Georgia has enjoyed ample growth, although it is important to remember that it started from quite a low base. The sector has more than doubled in size over the last three years. During 2003-05 Georgian banks increased their assets at 32% CAGR, which blows past the CEE average growth rate of 18% for the same period. Georgia's loan portfolio growth, 40% CAGR in 2003-05, was far above 21% average for the CEE. The difference in deposit dynamics was even more impressive: 36% in Georgia compared to a mere 15% in CEE.

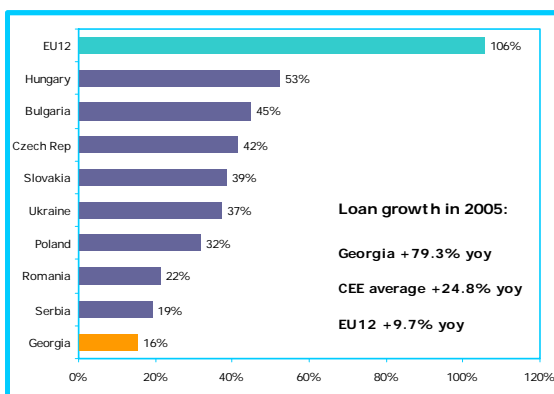
Georgian Banking: On Its Way



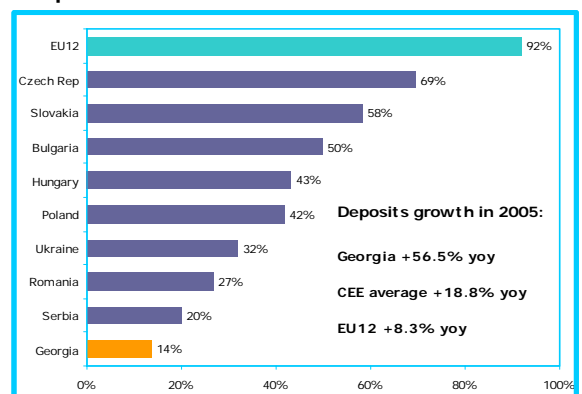
Source: Concorde Capital, National Bank of Georgia, Erste Bank

Georgia's lower level of financial intermediation clearly means the Georgian banking segment has a ton of growth room. For example, deposits as a percentage of GDP, in Georgia, 13.8%, are far below the CEE's percentage of 44%. Lending is similar, 15.5%, less than half of what it is in CEE countries - 36%. When looking at total banking assets, the difference is even more noticeable: Georgian banking assets are about 23% of GDP, much less than the in the CEE (75%). **The Georgian banking sector is off to a fast start and has a great deal of catch-up potential. The Bank of Georgia is a good opportunity to get exposure to the market in its early stage, while the segment's biggest growth years are still ahead of it.**

Loans/GDP In 2005



Deposits/GDP In 2005



Source: Concorde Capital, National Bank of Georgia, Erste Bank

Bank of Georgia: In Touch With Market Trends & Growth Triggers

The new management, which took control of the bank in September, 2004, embarked on an aggressive turnaround strategy, focusing on both organic growth and acquisition opportunities with the goal of spearheading banking sector consolidation in Georgia and diversifying its portfolio of financial services.

Key Trends & Growth Triggers of Georgian Banking

Cards/ATMs, Internet banking, Branch network expansion

To enhance its market position in retail, Bank of Georgia embarked on several steps :

- The acquisition of a controlling stake in Georgian Card (a card processing platform) in October, 2004 enabled the bank to invest aggressively in upgrading its platform, viewed as essential for competitiveness in retail banking;
- Acquisition of Intellect Bank (#9 in Georgia in terms of assets) in February, 2006 gave BoG an additional market share of around 2.5% in deposits, approximately 7,000 cardholders and 25,000 retail clients overall;
- Expansion and modernization of the bank's branch network in 2004-05 brought BoG's number of outlets to 75, the largest in Georgia;
- In 2005 the bank achieved a leading position in plastic card issuance, with 63,097 cards outstanding by the end of 2005 (+90.5% yoy).

Mortgages, Consumer loans

The Georgian market is underdeveloped in terms of retail banking products such as consumer loans (4.6% of GDP) and mortgages (1.6% of GDP), which promises ample growth.

Over the past few years BoG carved out a leading position in retail banking and thus is poised to benefit from more growth ahead:

- Bank of Georgia has increased its retail loan portfolio by three times since 2003 and with USD 73 mln had a 26% market share by the end-2005;
- By tripling its mortgage loan portfolio over the last two years to USD 21.1 mln at the end of 2005, the bank has gained a sizeable 21% share of total mortgage loans in the system.

Asset management, Pensions/Life insurance

To meet the future increased growth for more sophisticated banking products such as wealth management, the BoG currently is laying the foundations of its undisputed leading position in this area:

- In November, 2004, after the acquisition of TbilUniverasIBank (#9 in asset terms at the time), Bank of Georgia gained control of Galt & Taggart Securities, the country's leading investment bank;
- In November, 2004 BoG acquired one of the largest Georgian insurance companies, British-Caucasian Insurance (BCI). The BCI's acquisition enabled the bank to cross-sell its corporate banking services to the extensive corporate client base of BCI and to enrich its retail banking activities with a variety consumer insurance products;
- In 2005 BoG integrated its Private Banking unit, pension professionals (employed by BCI) and the broker, research, asset management and back-office professionals of Galt & Taggart into a single business model for Asset & Wealth Management.

The Bank In Georgia

Market position & Growth

For the past few years, the Bank of Georgia's growth rates have outpaced the whole banking system. Total asset growth was 38% CAGR for 2003-05, above the industry average of 32%, which allowed the bank to expand its market share from 15.8% in 2002 to its current 18% and preserve its leading position as the second-largest Georgian bank.

The Top-6 Georgian Banks*

Rank	Bank	Total Assets	% of all banks	Loan Portfolio	% of all banks	Total Deposits	% of all banks
1	TBC Bank	321,672	23%	198,931	22%	210,976	29%
2	Bank of Georgia	252,902	18%	165,903	18%	151,244	21%
3	United Georgian Bank	217,609	15%	163,742	18%	73,117	10%
4	ProCredit Bank	183,923	13%	130,796	14%	73,738	10%
5	Cartu	139,103	10%	92,948	10%	42,139	6%
6	Bank Republic	118,328	8%	71,032	8%	85,900	12%

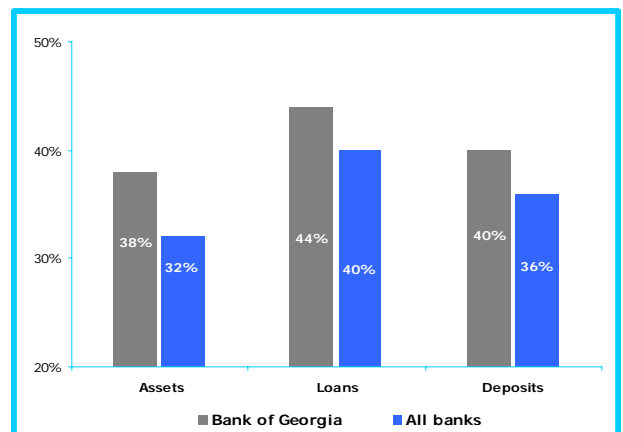
Source: National Bank of Georgia, Concorde Capital estimates

* As of December 31, 2005, USD mln

The growth of the bank's balance sheet was primarily due to the rapid expansion of its loan portfolio. Over the last three years the Bank of Georgia's loan book has tripled in size (44% CARG for 2003-05, above the industry average of 40%) reaching USD 253 mln, representing 18% of the total loans in the banking system.

To support further lending, the Bank of Georgia has maintained the rapid growth of its deposit base. During 2003-05 funds in deposit accounts with the bank grew at 40% CAGR, outpacing the industry average of 36%. Since 2002, the bank has doubled its market share in total deposits in the system to 21% at the end of 2005.

Bank of Georgia vs Industry, CAGR 2003-05



Source: National Bank of Georgia, Company data, Concorde Capital estimates

Cleaning Up Its Loan Portfolio

A highly conservative approach to lending, resulting in major restructuring of the credit process and a conservative loan loss provisioning policy are two of the key components of the new management's strategy. As a result, the bank dramatically increased its loan loss provisions (LLP) in 4Q04, resulting in a new total LLP of USD 11.2 mln in 2004. As a result, the Bank's Provision/Total Loan Portfolio ratio increased from 6% in 2003 to 12.1% at the end of 2004, making it one of the most conservatively positioned banks in Georgia. The introduction of this new policy confirms the new management's commitment to building further business on a sound, reliable and transparent basis. In 2005 the bank's loan portfolio started to improve as Adversely Classified Loans decreased from USD 19.6 mln (22% of total loan portfolio) at the end of 2004 to USD 18.4 mln (11% of total loans) by the end of 2005.

Loan Portfolio Risk By Loan Categories

	2003		2004		2005	
Standard (2% provision)	61.4	88%	68.9	78%	155.7	89%
Watch (10% provision)	4.2	6%	7.7	9%	7.3	4%
Substandard (30% provision)	2.3	3%	2.2	2%	5.0	3%
Doubtful (50%-70% provision)	0.6	1%	4.3	5%	3.4	2%
Loss (100% provision)	1.6	2%	5.4	6%	2.7	2%
Total	70.0	100%	88.5	100%	174.1	100%

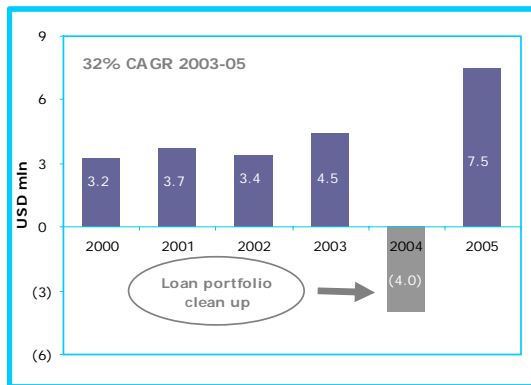
Asset Quality

	Q1 04	Q3 04	Q4 04	Q1 05	Q3 05	Q4 05
NPLs	5.2	6.6	11.9	8.5	7.0	7.0
NPLs/Total loans	6.4%	7.5%	13.4%	7.9%	4.5%	4.0%
Provisions/NPLs	94.0%	86.4%	89.7%	145.5%	117.5%	139.7%
Provisions/Total loans	6.1%	6.4%	12.1%	11.7%	5.3%	5.6%

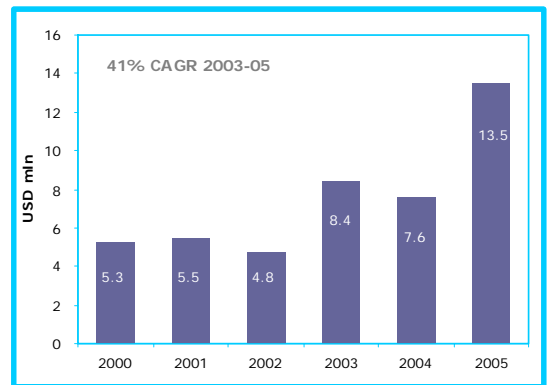
Source: Company data

Profitability

Over the past few years, the Bank of Georgia has maintained its profitability with remarkable net income growth of 32% CAGR in 2003-05 and operating income increasing by 41% on average during the same period. The introduction of a strict LLP policy in 4Q04 dropped the bank's 2004 net income into the red: USD 4.0 mln. However in 2005 BoG quickly restored its sound operating performance, ending the year with NI of USD 7.5 mln, implying end of 2005 ROE at 18.8%.

Net Income Dynamics


Source: Company data

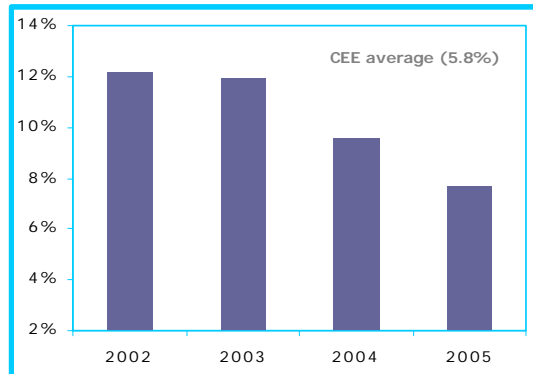
Operating Income Dynamics

Large Investments & Capital Increase May Hamper Net Income Growth

The Bank of Georgia is expected to continue to invest heavily in infrastructure, its retail segment and peruse other acquisitions (in February, 2006 the BoG acquired Intellect Bank, #9 by assets in Georgia), which will give it additional distribution channels and access to clients. Consequently, this may slow down the growth of net income in 2006-07. Combined with the anticipated issuance of equity, both through ADRs and listing on AIM in London, Bank of Georgia's ROE in 2006 may not exceed 15%. However we believe this is a reasonable price to pay for the consolidation of its leading market position in Georgia.

Loan Spreads Falling – Focus Shifts To Non-Interest Income

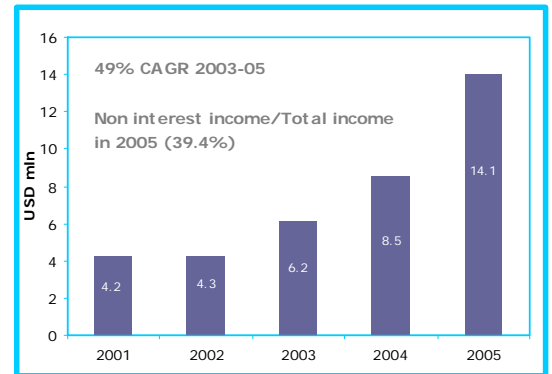
Over the last four years the Georgian banking sector has witnessed a constant decline in interest spreads (average loan interest rate – average deposit interest rate) bringing the system closer to the average CEE level (5.8% in 2005). As spreads steadily decline, the ability to generate sufficient non-interest revenues becomes one of the key competitive advantages for Georgian banks.

Average interest rate spreads



Source: National Bank of Georgia, Raiffeisen Int'l

Non-interest income dynamics



Source: Company data

In order to maintain and expand a sustainable base for earnings growth, the Bank of Georgia has put greater emphasis on increasing the non-interest component in the bank's revenues. For the last three years BoG has more than tripled its non-interest revenues, implying a growth rate of 49% CAGR 2003-05, and brought its share of total income to 39.4% by the end-2005. Although BoG's Non-interest income/Total income ratio is near the 45% average for CEE banks, unlike its CEE peers, BoG is not expected to face much stricter competition from Georgian banks in the mid-term in the non-interest environment which should cement this ratio at about this level. Currently the bank generates around 15% of its total non-interest revenues in the system. BoG's share is expected to rise further due to the benefits of cross-sell synergies: the acquisition of a card processing platform ("Georgian Card"), an insurance company (BCI) and control of Georgia's leading investment bank ("Galt & Taggart Securities") will enhance the bank's ability to provide more diversified and sophisticated products.

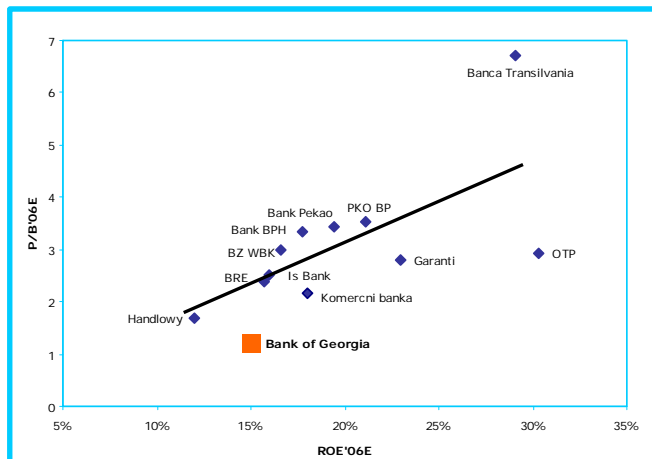
VALUATION

Peer Comparison

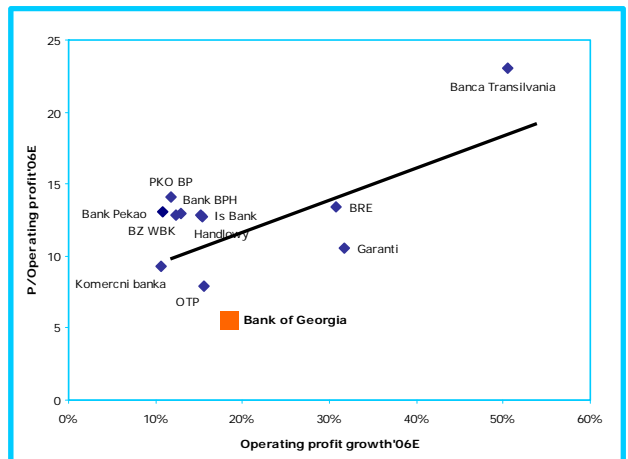
	Country	Mkt price, USD	MCap, USD mln	P/E			P/B			P/Operating income		
				2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Bank of Georgia	Georgia	5.47	84.6	12.0	10.5	8.3	1.7	1.2	1.2	6.7	5.6	4.2
Bank Pekao	Poland	56.0	9368	19.9	18.3	17.4	3.6	3.4	3.3	14.5	13.1	12.3
Bank BPH	Poland	239.6	6914	22.0	19.3	17.9	3.5	3.3	3.2	14.6	12.9	12.0
BZ WBK	Poland	45.1	3309	21.0	18.5	17.2	3.1	3.0	2.7	14.4	12.8	11.7
PKO BP	Poland	10.5	10547	19.6	17.6	16.0	3.9	3.5	3.3	15.7	14.1	12.8
Komerční banka	Czech Rep.	135.7	5160	13.7	12.6	11.4	2.4	2.2	1.9	10.2	9.2	8.3
OTP	Hungary	34.5	9089	12.7	10.8	9.0	3.7	2.9	2.4	9.1	7.9	6.7
Peers' average				18.1	16.2	14.8	3.4	3.1	2.8	13.1	11.7	10.6
Peers' median				19.8	17.9	16.6	3.6	3.2	2.9	14.5	12.9	11.8
Premium/ (Discount)				-34%	-35%	-44%	-50%	-62%	-59%	-52%	-52%	-61%
Implied Price, USD				8.28	8.39	9.79	10.86	9.86	13.26	11.36	11.32	13.97
Upside (Downside)				51%	53%	79%	98%	80%	142%	108%	107%	155%

	Country	Mkt price, USD	MCap, USD mln	P/Assets			P/Loans			P/Deposits		
				2005	2006E	2007E	2005	2006E	2007E	2005	2006E	2007E
Bank of Georgia	Georgia	5.47	84.6	0.3	0.3	0.2	0.5	0.3	0.3	0.5	0.4	0.3
Bank Pekao	Poland	56.0	9368	0.5	0.5	0.4	1.1	1.0	0.9	0.7	0.6	0.6
Bank BPH	Poland	239.6	6914	0.4	0.4	0.3	0.7	0.6	0.6	0.6	0.6	0.5
BZ WBK	Poland	45.1	3309	0.4	0.4	0.3	0.8	0.7	0.7	0.5	0.5	0.5
PKO BP	Poland	10.5	10547	0.4	0.4	0.3	0.7	0.7	0.6	0.5	0.4	0.4
Komerční banka	Czech Rep.	135.7	5160	0.2	0.2	0.2	0.7	0.5	0.4	0.3	0.3	0.3
OTP	Hungary	34.5	9089	0.4	0.3	0.3	0.6	0.5	0.4	0.6	0.5	0.5
Peers' average				0.4	0.4	0.3	0.8	0.7	0.6	0.5	0.5	0.5
Peers' median				0.4	0.4	0.3	0.7	0.6	0.6	0.6	0.5	0.5
Premium/ (Discount)				-10%	-4%	-27%	-32%	-50%	-55%	1%	-18%	-36%
Implied Price, USD				6.07	8.10	10.08	8.08	10.88	12.17	5.43	6.70	8.62
Upside (Downside)				11%	48%	84%	48%	99%	122%	-1%	22%	57%

P/B vs. ROE ('06E)

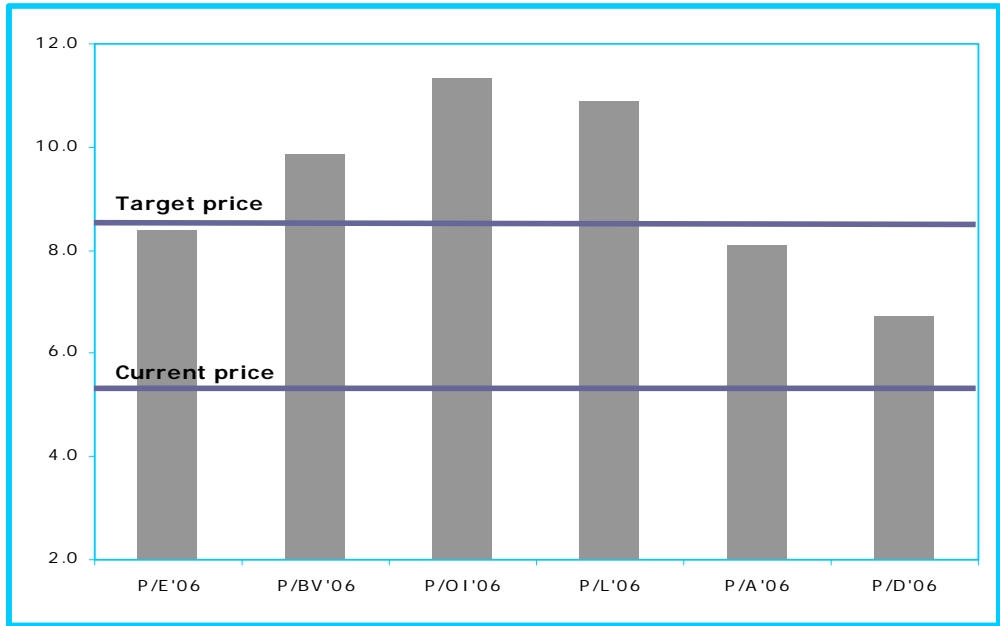


P/Operating Income vs. Growth ('06E)



Source: Concorde Capital, Company data, Erste Bank

Valuation Summary



IFRS Financial Statements

Balance Sheet Summary, USD ths

	2000	2001	2002	2003	2004	2005
ASSETS						
Cash	3,590	3,310	5,396	7,768	19,613	13,763
Balances with the National Bank of Georgia	5,593	5,630	9,737	12,091	22,972	18,370
Due from other banks	5,810	4,860	7,230	9,284	26,263	16,633
Loans and advances to customers	30,916	40,263	47,063	69,161	94,103	162,580
Securities	249	3,075	4,777	1,038	10,726	8,068
Investments	193	-	-	295	321	2,152
Property and equipment	6,865	8,166	8,767	10,756	18,276	25,740
Other assets	519	530	1,579	1,862	6,181	7,181
TOTAL ASSETS	53,734	65,833	84,548	112,255	198,455	254,487
LIABILITIES						
Due to State institutions	-	-	-	2,324	-	-
Due to the other banks	8,000.51	12,123	14,750	23,238	26,412	42,788
Total customer's deposits	28,828.72	33,022	46,989	59,223	137,775	148,184
Other liabilities	325.64	639	498	815	3,961	12,861
TOTAL LIABILITIES	37,155	45,784	62,237	85,600	168,149	203,832
Minority interest					809	547
TOTAL EQUITY	16,579	20,049	22,311	26,654	29,497	50,108
Share capital	4,413.33	4,784	4,716	4,808	6,160	8,137
Share premium	908.21	2,199	2,167	2,210	7,309	-
Treasury shares	-	-	-	-	(40)	(45)
Retained earnings & Revaluation reserves	11,257.95	13,066	15,428	19,637	16,067	42,015
TOTAL LIABILITIES & EQUITY	53,734	65,833	84,548	112,255	198,455	254,487

Income Statement Summary, USD ths

	2000	2001	2002	2003	2004	2005
Interest income	10,670	10,938	12,019	15,756	18,447	26,933
Interest expense	(2,518)	(2,873)	(3,437)	(3,844)	(5,420)	(7,087)
Net interest income	8,152	8,065	8,581	11,912	13,027	19,846
Fee & commission income	3,246	4,177	4,166	5,753	7,220	9,162
Fee & commission expense	(1,206)	(1,535)	(1,222)	(1,474)	(1,385)	(1,957)
Net gains from FX trading				1,887	2,649	3,583
Other income	1,276	1,606	1,332	-	-	3,267
Net non interest income	3,316	4,248	4,275	6,165	8,484	14,056
Total income	11,468	12,313	12,856	18,077	21,511	33,902
Salaries & employee benefits	(2,248)	(3,269)	(3,699)	(4,420)	(7,245)	(11,777)
General administrative expenses	(3,596)	(3,276)	(4,199)	(4,187)	(4,550)	(5,459)
Depreciation & amortization				(1,088)	(1,426)	(2,074)
Other operating expenses	(353)	(276)	(189)	-	(673)	(1,128)
Total Operating Expenses	(6,197)	(6,821)	(8,087)	(9,695)	(13,893)	(20,437)
Operating profit	5,271	5,492	4,769	8,382	7,617	13,465
Impairment of interest earning assets	(1,666)	(838)	(705)	(2,002)	(11,208)	(5,178)
Other provisions				(728)	(852)	
Profit before income tax	3,606	4,654	4,065	5,651	(4,443)	8,287
Income tax expenses	(365)	(931)	(666)	(1,186)	427	(888)
Minority interest						80
Net income	3,241	3,723	3,399	4,465	(4,016)	7,479

Source: Company data

Key Ratios

	2001	2002	2003	2004	2005
P&L Growth					
Net interest income	-1.1%	6.4%	38.8%	9.4%	52.3%
Net commissions income	28.1%	0.6%	44.2%	37.6%	65.7%
Total income	7.4%	4.4%	40.6%	19.0%	57.6%
PBT	29.1%	-12.7%	39.0%	NM	NM
Net profit	14.9%	-8.7%	31.4%	NM	NM
B/S Growth					
Net Loans	30.2%	16.9%	47.0%	36.1%	72.8%
Average interest earning assets	-	25.9%	29.2%	52.0%	51.2%
Total Assets	22.5%	28.4%	32.8%	76.8%	28.2%
Customer deposits	14.5%	42.3%	26.0%	132.6%	7.6%
Average interest bearing liabilities	-	30.4%	34.9%	71.0%	44.0%
Book Value	20.9%	11.3%	19.5%	10.7%	69.9%
Key Ratios					
Non interest income/Total income	28.9%	34.5%	33.3%	34.1%	39.4%
Net interest income/Total income	71.1%	65.5%	66.7%	65.9%	60.6%
Net interest margin	19.1%	15.0%	12.4%	11.3%	8.2%
Cost / Income ratio	54.0%	55.4%	62.9%	53.6%	64.6%
ROA	6.2%	4.5%	4.5%	NM	3.3%
ROE	20.3%	16.0%	18.2%	NM	18.8%

Source: Company data, Concorde Capital estimates

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