PROSPECTUS

The National Securities Commission of Georgia (the "NSCG") approves the format of the prospectus and is not responsible for the accuracy of the content or the valuation of the investments presented herein

JOINT STOCK COMPANY BANK OF GEORGIA

GEL 2,000,000, 11% p.a. CALLABLE BONDS DUE September 2, 2007
Issue Price: 100% (one hundred per cent)

This prospectus (the "Prospectus") is issued by JSC Bank of Georgia ("BoG", the "Bank" or the "Issuer"), a joint stock company incorporated under the laws of Georgia. The Prospectus relates to the proposed issue of up to 20,000 callable bonds ("Bonds"), each having a face value of GEL 100 and bearing the interest rate (coupon) of 11% p.a. All of the Bonds are being sold by JSC Galt & Taggart Securities ("Galt & Taggart"), the Placement Agent of the Bank.

AN INVESTMENT IN THE BONDS INVOLVES A HIGH DEGREE OF RISK. YOU MUST BE PREPARED TO BEAR THE ECONOMIC RISK OF YOUR INVESTMENT FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS SEE "RISK FACTORS RELATED TO THE BANK'S BUSINESS, INDUSTRY AND MARKET ENVIRONMENT" ON PAGE 47 AND "RISK FACTORS RELATED TO THE BONDS AND THE TRADING MARKET" ON PAGE 48.

This Prospectus and the information contained herein are subject respectively to completion and/or amendment without notice. The Bonds may not be sold nor may an offer to buy the Bonds be accepted before the Prospectus is issued in final form. In no circumstances shall this Prospectus constitute or form part of an offer to sell or issue, or the solicitation of an offer to buy or subscribe for nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful before registration, qualification or exemption under the securities laws of any such jurisdiction. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restrictions. In particular, the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, and, subject to certain exceptions, may not be offered, sold or delivered in the United States. In addition, the Bank has not authorized any offer of the Bonds to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995.

This Prospectus is a translation of the Georgian original of the Prospectus submitted for approval to the NSCG. In case of any discrepancies the Georgian original shall govern.

This Prospectus is dated June 10, 2005

Galt & Taggart acting solely as the placement agent on a best efforts basis

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FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. Such statements may be identified by forward-looking words such as “may”, “will”, “expect”, “anticipate”, “believe”, “estimate” and “continue” or similar words. They can also be identified by the fact that they do not relate strictly to historical or current facts. Such statements should be read carefully because they discuss the Bank’s future expectations, contain projections of the Bank’s future results of operations or of its financial condition or state other “forward-looking” information. The Bank believes that it is important to communicate its future expectations to investors. However, there may be events in the future that the Bank is not able to accurately predict or control and that may cause its actual results to differ materially from those discussed as a result of various factors. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Prior to investing in the Bonds, prospective purchasers should be aware that the occurrence of the events described in the “Risk Factors” section and elsewhere in this Prospectus could harm the Bank’s business, operating results and financial condition. All forward-looking statements attributable to the Bank or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this Prospectus. The Bank is under no duty to update any of the forward-looking statements after the date of this Prospectus or to conform these statements to actual results.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information set out herein has been derived from the audited financial statements of the Bank and its certain newly-acquired subsidiaries (the "Subsidiaries") for the years ended December 31 2004 and 2003. These audited consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board.

Auditors

Ernst & Young ("E&Y") have audited the financial statements of the Bank for the year ended December 31 2004 and 2003. E&Y has expressed an unqualified opinion on the respective financial statements of the Bank, as stated in their reports appearing herein.

Currency

In this Prospectus, the following currency terms are used:

§ "Georgian Lari", "Lari" or "GEL" means the lawful currency of Georgia;
§ "United States dollar", "Dollar" or "US$" means the lawful currency of the United States;
§ "Euro", "EUR" or "€" means the lawful currency of the member states of the European Union that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended; and
§ "Pound Sterling", "GBP" or "£" means the lawful currency of the United Kingdom.

Exchange Rates

The table below sets out, for the periods indicated, the high, low, average and period-end exchange rates established by the National Bank of Georgia (the "NBG"), expressed in GEL per a unit of the relevant currency.

GEL/US$	**High**	**Low**	**Average**	**Period End**
5/31/2005	1.83	1.82	1.83	1.83
4/30/2005	1.84	1.82	1.83	1.83
3/31/2005	1.84	1.79	1.83	1.83
2004	2.14	1.70	1.91	1.83
2003	2.23	2.05	2.15	2.08
2002	2.24	2.06	2.19	2.09
2001	2.18	1.98	2.07	2.06

GEL/EUR	**High**	**Low**	**Average**	**Period End**
5/31/2005	2.37	2.29	2.32	2.29
4/30/2005	2.39	2.35	2.37	2.36
3/31/2005	2.49	2.33	2.40	2.38
2004	2.74	2.06	2.38	2.49
2003	2.64	2.27	2.42	2.59
2002	2.23	1.82	2.08	2.18
2001	1.97	1.73	1.86	1.82

GEL/£	**High**	**Low**	**Average**	**Period End**
5/31/2005	3.48	3.33	3.39	3.33
4/30/2005	3.49	3.43	3.47	3.47
3/31/2005	3.55	3.35	3.46	3.45
2004	3.95	3.02	3.51	3.51
2003	3.78	3.32	3.50	3.68
2002	3.48	2.99	3.30	3.35
2001	3.17	2.82	2.98	2.99

SUMMARY OF THE OFFERING

The Issuer	JSC Bank of Georgia
The Instrument	Bond
Type	Callable
The Face Value	GEL 100
Form	The owner of the registered Bond will appear on the records of the Registrar
Number of Bonds	Up to 20,000 but no less than 2,000
The Principal Amount	Up to GEL 2,000,000 but no less than GEL 200,000
Maturity	Two (2) years upon issuance
The Coupon Rate and Payment Schedule	11% (eleven per cent.) per annum, payable on the Coupon Payment Dates, (the first Coupon Payment Date occurring in six months following the issuance date, and subsequent Coupon Payment Dates occurring at six-month intervals following the preceding Coupon Payment Date) until maturity, less any tax to be withheld at source in accordance with the Georgian law
Method of Calculation	Interest rate is calculated on an Actual/365 basis
The Issue Price	100% (hundred per cent.) of the Face Value
Ranking	Unsecured, unsubordinated indebtedness of the Issuer
Covenants	None
Early Redemption	The Issuer may, in one (1) year after the issuance, in its sole discretion, redeem all outstanding Bonds at 100% (one hundred per cent) of the Face Value plus the interest accrued but unpaid from the last Coupon Payment Date, less any tax to be withheld at source in accordance with Georgian law. (See the Call Procedure on page 51)
Use Of Proceeds	The net proceeds from the issue of the Bonds will be used by the Issuer to fund its lending activities and general banking purposes
Admission To Trading	Application has been made for the Bonds to be admitted to the secondary trading on the Georgian Stock Exchange (the "GSE")
The Offering Date	The offering will be considered successful when the Bonds with the minimum aggregate principal amount of GEL 200,000 are sold, with subsequent offerings conducted at the Issuer's sole discretion
Placement Procedure and Terms	See page 50
Redemption	In two (2) years after the issuance the issuer undertakes the obligation to pay the Bondholders the Face Value of the Bonds, plus the interest accrued but unpaid from the last Coupon Payment Date less any tax to be withheld at source in accordance with Georgian law
Placement Agent	Galt & Taggart 74 A Chavchavadze Avenue Tbilisi, Georgia 0162 Tel: + 995 32 23 58 00; Fax: +995 32 23 58 04
Registrar	JSC Kavkasreestri 74 A Chavchavadze Avenue Tbilisi, Georgia 0162 Tel: + 995 32 22 07 18; Fax: +995 32 25 18 77
Governing Law	Georgian law

CAPITALIZATION AND INDEBTEDNESS AND CAPITAL ADEQUACY

The table below sets out (i) the Bank's unconsolidated capitalization and capital adequacy ratios as of April 30, 2005, and (ii) such capitalization and capital adequacy ratios as adjusted to reflect the issuance of the Bonds by the Bank in the aggregate principal amount of GEL 2,000,000.

	As of April 30, 2005	
GEL '000s unless otherwise noted	**Actual**	**Adjusted***
Shareholders' Equity		
Issued Capital	11,407	11,407
Share Premium	13,786	13,786
Revaluation Reserves	5,819	5,819
Retained Earnings	26,697	26,697
Total Shareholders' Equity	**57,709**	**57,709**
Common Shares Outstanding, '000 Shares	*11,407*	*11,407*
Book Value Per Common Share, GEL	***5.06***	***5.06***
Indebtedness		
Total Short-Term Debt	21,202	21,202
Total Long-Term Debt	22,743	24,743
Total Indebtedness	**43,945**	**45,945**
Total Capitalization and Indebtedness	**101,654**	**103,654**
Off-Balance Sheet Liabilities	34,346	34,346
Risk-Weighted Assets (Basel Capital Accord)	**306,618**	**308,618**
Risk-Weighted Assets (National Bank of Georgia)	**442,549**	**444,549**
Capital (Basel Capital Accord)		
Tier I Capital	48,674	48,674
Tier I + II Capital	55,793	55,793
Capital (National Bank of Georgia)		
Tier I Capital	45,291	45,291
Tier I + II Capital	45,590	45,590
Capital Adequacy Ratios (Basel Capital Accord)		
Tier I Capital Adequacy Ratio	15.87%	15.77%
Total Capital Adequacy Ratio	18.20%	18.08%
Capital Adequacy Ratios (National Bank of Georgia)		
Tier I Capital Adequacy Ratio	10.23%	10.19%
Total Capital Adequacy Ratio	10.30%	10.26%

* Assuming the placement of the entire GEL 2 million of the bonds

SHAREHOLDING STRUCTURE

As of May 31, 2005, the authorized and issued share capital of the Bank was GEL 59,066,533 comprised of 11,465,214 common shares with nominal value of GEL 1 each. In addition, the Bank had 3,318,195 authorized but unissued common shares.

The following table sets out the bank's principal shareholders as of May 31, 2005.

May 31, 2005	**Shares**	*%*
EBRD	1,548,878	*13.5%*
Victor Gelovani	1,471,675	*12.8%*
TUB Shareholders	1,316,153	*11.5%*
Galt & Taggart Securities *(mostly nominal ownership)**	2,614,587	*22.8%*
Firebird Avrora Fund	512,248	*4.5%*
Firebird Republics Fund	512,248	*4.5%*
Firebird Global Fund	341,500	*3.0%*
Lado Gurgenidze	144,000	*1.3%*
BCI Shareholders	101,627	*0.9%*
Subtotal	*8,562,916*	*74.7%*
DEG	1,250,000	*10.9%*
Free Float	1,652,298	*14.4%*
Subtotal	*2,902,298*	*25.3%*
Shares Outstanding	**11,465,214**	*100.0%*

* of which beneficially owned by:
Firebird Avrora Fund - 796,184 shares
Firebird Republics Fund - 513,625 shares
Firebird Global Fund - 141,279 shares

SELECTED FINANCIAL AND OPERATING INFORMATION

The tables below present selected audited financial information. Please see “2004 Audited Financial Statements” in Annex I.

Bank of Georgia Balance Sheet (IFRS)

	Years Ended December 31	
GEL'000s unless otherwise noted	**2004**	**2003**
	(consolidated)	
ASSETS		
Cash and cash equivalents	102,747	43,626
Amounts due from credit institutions	25,585	16,117
Investment securities		
- available-for-sale	59	445
-held-to-maturity	19,569	1,683
Loans to customers	169,868	141,780
Investment in associates and non-consolidated subsidiaries	588	604
Property and equipments	27,159	20,024
Intangible assets	6,286	2,025
Tax assets	3,407	-
Prepayments	1,077	-
Other Assets	6,827	3,818
TOTAL ASSETS	**363,172**	**230,122**
Liabilities		
Amounts owed to State institutions	-	4,765
Amounts due to credit institutions	48,334	47,637
Amounts due to customers	252,129	121,408
Tax liabilities	203	771
Provisions	970	472
Other liabilities	6,076	428
Total liabilities	**307,712**	**175,481**
Minority interest	**1,481**	-
Shareholders' Equity		
Share capital	11,273	9,856
Additional paid-in capital	13,376	4,530
Reserves	5,492	15,325
Treasury shares	-73	-
Retained earnings	23,911	24,930
Total Shareholders’ Equity	**53,979**	**54,641**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**363,172**	**230,122**
Financial commitments and contingencies	45,299	46,130

Bank of Georgia Income Statement (IFRS)

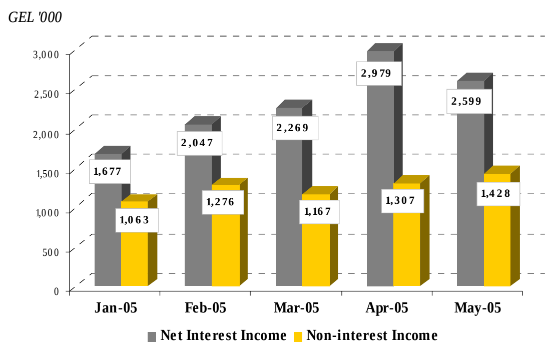
GEL '000s unless otherwise noted	Years Ended December 31, 2004	2003
Interest income		
Loans	32,104	30,004
Securities	1,654	2,295
	33,758	32,299
Interest expense		
Deposits	6,819	5,347
Borrowings	3,100	2,533
	9,919	7,880
Net interest income before provision for impairment	**23,839**	**24,419**
Impairment of interest earning assets	20,511	4,105
Net interest income after provision for impairment	**3,328**	**20,314**
Fee and commission income	13,212	11,793
Fee and commission expense	2,534	3,022
Fees and commissions	**10,678**	**8,771**
Gains less losses from foreign currencies:		
- dealing	5,058	4,351
- translation differences	(210)	(483)
Non interest income	**4,848**	**3,868**
Salaries and benefits	13,258	9,060
Depreciation and amortisation	2,609	2,231
Administrative expenses	8,327	8,584
Other impairment and provisions	1,559	1,493
Other operating expenses	1,231	-
Non interest expense	**26,984**	**21,368**
Income before income tax expense	**(8,130)**	**11,585**
Income tax (benefit) expense	(781)	2,431
Net (loss) income	**(7,349)**	**9,154**
(Loss) Earnings per share	(0.778)	0.929

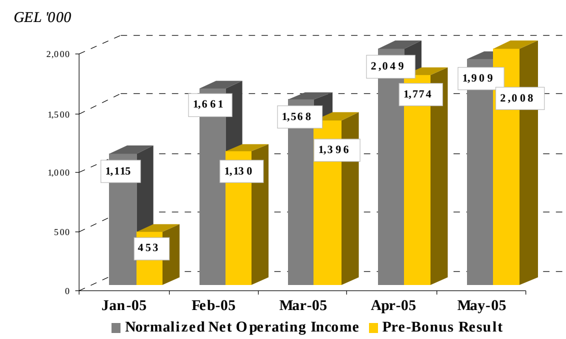
Bank of Georgia Unaudited YTD Balance Sheet (IFRS)

GEL 000s unless otherwise noted	**5/31/2005**
Assets	
Cash	34,000
Balances with NBG	28,410
Cash Balances with Banks	16,642
Treasuries	23,302
Gross Loans, of which	224,675
Provisions for Loan Losses	(22,569)
Net Loans	202,106
Accrued Interest and Dividends	2,376
Net Investments	7,746
Fixed Assets	30,095
Other assets	9,453
Goodwill	1,917
TOTAL ASSETS	**356,046**
Liabilities	
Deposits	239,372
Interbank deposits	505
Client deposits	238,867
Borrowed Funds	41,179
Payable Interest and Dividends	5,402
Other Liabilities	11,280
Total Liabilities	**297,233**
Shareholders' Equity	
Ordinary Shares	11,465
Retained Earnings and Revaluation Reserves	43,134
Net Profit	4,214
Total Shareholders' Equity	**58,813**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**356,046**

Bank of Georgia Unaudited YTD Income Statement (IFRS)

	01/31/05	02/28/05	03/31/05	04/30/05	05/31/05	05/31/05 YTD
Interest Income	2,547	2,816	3,145	3,893	3,579	15,980
Interest Expense	(870)	(769)	(877)	(914)	(980)	(4,409)
Net Interest Income	**1,677**	**2,047**	**2,269**	**2,979**	**2,599**	**11,571**
Fee and Commission Income	741	787	873	926	952	4,279
Fee and Commission Expenses	(124)	(99)	(157)	(237)	(164)	(782)
Net Fee and Commission Income	**617**	**689**	**715**	**688**	**788**	**3,497**
Income From Documentary Operations	149	254	209	176	204	992
Documentary Operations Expenses	(7)	(3)	(155)	(55)	(55)	(275)
Net Income From Documentary Operations	**141**	**251**	**55**	**121**	**149**	**717**
Other Non-interest Income	**17**	**24**	**16**	**27**	**7**	**90**
Net Income From FX Operations	**288**	**313**	**381**	**470**	**485**	**1,937**
Non-interest Income	**1,063**	**1,276**	**1,167**	**1,307**	**1,428**	**6,240**
Total Operating Income	**2,740**	**3,323**	**3,436**	**4,286**	**4,027**	**17,812**
Recurring Operating Costs	(1,625)	(1,662)	(1,868)	(2,236)	(2,118)	(9,509)
Personnel Cost (excluding bonus)	(866)	(891)	(930)	(1,044)	(1,032)	(4,764)
Health Insurance & Pension Costs	0	0	0	0	(20)	(20)
Marketing and Development Costs	(33)	(45)	(177)	(233)	(227)	(716)
Depreciation	(240)	(224)	(245)	(252)	(279)	(1,240)
Other operating expenses	(486)	(502)	(515)	(706)	(561)	(2,770)
Normalized Net Operating Income	**1,115**	**1,661**	**1,568**	**2,049**	**1,909**	**8,302**
Net Non-recurring Income (costs)	(141)	(367)	(217)	(136)	231	(630)
Profit (pre-bonus) Before Provisions	**974**	**1,294**	**1,351**	**1,913**	**2,140**	**7,673**
Net Provisions	(852)	(615)	(730)	(180)	(275)	(2,652)
Gains on asset sale & recovery	15	227	528	41	144	955
Pre-Bonus Result	**453**	**1,130**	**1,396**	**1,774**	**2,008**	**6,762**
Guaranteed Compensation Cost	0	(42)	(21)	(17)	(19)	(99)
Bonus (paid & accrued)	(16)	(14)	(667)	(697)	(733)	(2,127)
Pre-Tax Income	**437**	**1,073**	**709**	**1,060**	**1,256**	**4,536**
Income Tax (estimate)		0	0	0	(322)	(322)
Net Income	**437**	**1,073**	**709**	**1,060**	**934**	**4,214**





Net Income of Group Companies	
BCI Net Income	267
Galt & Taggart Net Income	47
Georgian Card Net Income	(57)
Georgian Leasing Company Net Income	(17)
Total Group Net Income	**4,454**

USE OF PROCEEDS

The proceeds from the offering of Bond will be used for the funding and expansion of the Bank's lending activities.

BUSINESS

Overview

JSC Bank of Georgia is a universal bank registered as a joint stock company at Krtsanisi District Court of Tbilisi on November 29, 1995. The registration number is 06/5-07. The registered legal address and principal office is at 3, Pushkin Street, Tbilisi, Georgia 0105.

The Bank's business activities are organized into five Strategic Business Units ("SBUs"): Retail Banking ("RB"), Corporate & Investment Banking ("CIB"), Insurance ("BCI"), Asset & Wealth Management ("A&WM") and Corporate Center ("CC").

As at April 30, 2005 the Bank was the second largest bank in Georgia by assets and the third largest bank in Georgia by equity. In 2003, the NBG awarded the Bank the first (highest) category rating according to its CAEL system.

History

The Bank is the successor to the state-owned Binsotsbank, which was privatized in 1994. In the ten years since its privatization, the Bank has gone through several stages of development, evolving into a leading universal banking institution in Georgia that sets the standard in product innovation, transparency and corporate governance.

Having secured in the mid-1990s several credit lines from the EBRD, IFC, DEG and other international financial institutions to fund its growth, the Bank entered into a formative stage of its development in the late 1990s, with the EBRD becoming a significant shareholder. Soon thereafter, the Bank benefited from a "Twinning" project with ABN AMRO Bank, which resulted in the organizational restructuring, streamlining of the management, adoption of tight credit procedures and training of personnel.

In 2001, following the installation of a new core banking software platform, the Bank began reporting in the IAS. DEG became a significant shareholder of the Bank in the same year. In June 2001, the Bank was listed on the GSE, where it trades under the ticker code of GEB. To date, the Bank remains the sole listed and most liquid stock on the GSE.

Key Developments in 2004

The Bank's organic growth and development notwithstanding, its share price stagnated at or around the GEL 2.0 per share mark in 2001-2003. Limited liquidity, lack of research coverage and absence of institutional interest in the Bank's stock were the main factors causing the Bank's shares to trade at a fraction of its book value.

In order to maximize shareholder value and enhance the likelihood of their eventual exit, the Bank's key shareholders – the EBRD, DEG and Mr. Victor Gelovani (a prominent Russian scientist of Georgian origin) – implemented dramatic changes in early 2004. Galt and Taggart, the sole full-service Georgian investment banking firm (in which BoG had acquired an approximately 35% equity interest in December 2003), was appointed the Bank's corporate broker, with the mandate to raise the Bank's profile and enhance the stock's liquidity. Mr. Elguja Silagadze agreed to step down in April 2004 as the Bank's Chief Executive Officer and the Supervisory Board initiated the search for the new Chief Executive Officer.

As a result of Galt & Taggart's efforts and due to the market's anticipation of positive changes, institutional interest in the Bank's stock began to increase in the summer, with several non-resident investors buying on momentum as the share price increased from GEL 2.0 in January 2004 to GEL 3.4 in August 2004.

In September 2004, the Bank announced that Mr. Lado Gurgenidze, a prominent investment banker of Georgian origin, agreed to serve as the Bank's Chief Executive Officer. Additional significant enhancements to the Bank's management team were made in Q3 2004, with Mr. Irakli Gilauri, formerly an EBRD employee, joining as the Chief Financial Officer and Ms. Macca Ekizashvili, formerly IFC employee, joining as the Head of Investor Relations. The share price, reacting to the news, reached GEL 3.8 by the end of September 2004.

Key Developments and Strategic Makeover in Q4 2004 and Q1 2005

In October and November 2004, the Bank succeeded in attracting several funds managed by Firebird Management LLC (“Firebird”), a New York-based asset management firm focusing on the emerging markets of Russia and the CIS, as its shareholders. The Firebird funds bought in aggregate 1,365,996 shares of the Bank at GEL 6.0 per share. In December 2004, Mr. Ian Hague, the Managing Partner of Firebird, was elected as a member of the Supervisory Board of the Bank.

Under the new leadership, the Bank has embarked on an aggressive turnaround strategy, focusing on both organic growth and acquisition opportunities with a view to spearheading the banking sector consolidation in Georgia and diversifying its portfolio of financial services businesses.

In October 2004, the Bank announced that it had acquired a controlling equity interest in Joint Stock Company Georgian Card (“Georgian Card”), the card processing platform servicing the Bank’s plastic cards operations. The acquisition of control in Georgian Card has enabled the Bank to invest aggressively in the upgrading of its platform, viewed as essential for overall competitiveness in retail banking. Mr. George Keshelashvili, a seasoned banker most recently in charge of Plastic Cards, Information Technology and Accounting at the People’s Bank, was appointed General Director of Georgian Card.

In November 2004, the Bank announced the acquisition of TbilUniversalBank (“TUB”), the ninth largest bank in Georgia at the time by assets and equity, for consideration comprising a combination of cash and shares. TUB, deemed one of the most attractive and transparent medium-size banks in Georgia, has helped the Bank enhance its market share in both loans and deposits and added to the depth of the management talent at the Bank. Mr. Sulkhan Gvalia, former Deputy General Director of TUB, has joined the Bank’s Management Board as the Deputy Chief Executive Officer overseeing credit management and asset recovery and Mr. Vasil Dzotsenidze, former General Director of TUB, has joined the Bank’s Management Board as the Deputy Chief Executive Officer overseeing the RB SBU. Additionally, TUB owned a 60% equity interest in the Georgian Leasing Company (“GLC”), the second-largest leasing company in Georgia, whose services have now been added to the Bank’s CIB offering. As TUB owned an approximately 8% equity interest in Galt & Taggart, its acquisition enabled the Bank to effectively consolidate control of Galt & Taggart, which features prominently in the Bank’s plans in both CIB and A&WM. In December 2004, Mr. Tariel Gvalia, former Chairman of the Supervisory Board of TUB, was elected as a member of the Supervisory Board of the Bank. He has subsequently been appointed Vice Chairman of the Supervisory Board of the Bank.

In the same month, the Bank announced the acquisition of Joint Stock Company British-Caucasian Insurance (“BCI”), one of the leading insurance companies in Georgia offering a broad spectrum of insurance services to both corporate and retail customers, for consideration comprising a combination of cash and shares. The acquisition of BCI has enabled the Bank to cross-sell CIB services to the extensive corporate client base of BCI and to enrich its retail banking offering with a variety of consumer insurance products through the *bancassurance* strategy the Bank intends to pursue. Ms. Ekaterina Lotuashvili joined BCI as Retail Insurance Department Director after receiving an MSc in Insurance and Risk Management at City University Cass Business School in London. Additionally, BCI possessed all the requisite licenses for the provision of pension-related services, which accelerated the Bank’s entry into asset & wealth management.

Cost reduction and containment is the second key component of the new management’s strategy. In October 2004, Mr. David Songulashvili joined the Bank as the new Head of Procurement, having served most recently in a similar role at the Ministry of Economic Development of Georgia. Starting from November 2004, the Bank commenced the streamlining of its branch network by shutting down three unprofitable branches in rural regions and throughout Q1 2005 continued the modernizing its branch network in Tbilisi, renovating selected full-service branches and opening several specialized outlets. Two major branches have been acquired in Tbilisi at the aggregate cost of approximately three times aggregate annual rent, resulting in cash savings of GEL 291,000 per annum.

As part of its aggressive growth policy, the Bank has placed under review its corporate branding & image policies, as well as marketing strategy. In January 2005, Ms. Tamar Megrelishvili joined the Bank as the new Head of Marketing & PR, reporting to the Chief Executive Officer. Ms. Megrelishvili had served in a similar role at TUB and, most recently, as the Head of Marketing at ProCredit Bank Georgia.

In furtherance of its efforts to create a management team that is a robust and harmonious blend of the local talent of Bank of Georgia, BCI and TUB, and foreign-educated Georgian professionals returning home, the Bank continued the recruitment of top talent from abroad. In November 2004, the Bank enhances its IT team by recruiting Mr. Mikheil Tavkhelidze from BlueCrest Capital Partners to serve as IT Project Manager. In March 2005, Ms. Ekaterina Kvantrishvili, former Head of Collections at Rusfinance (the Russian consumer lending joint venture between Société Générale and Baring Vostok Capital Partners), joined as the Head of Collections and Special Retail Projects Coordinator at RB SBU. The Bank also succeeded in recruiting Mr. Giorgi Paresishvili from Credit Suisse First Boston Emerging Markets Trading in London, as the Head of Asset & Wealth Management, filling in the last gap in the senior management lineup.

A highly conservative approach to lending, resulting in major credit process redesign and conservative loan loss provisioning policy is the third key component of the new management's strategy. In this regard, the Bank dramatically increased loan loss provisions in Q4 2004, resulting in total new provisions of GEL 20.5 million made in 2004. As a result, the Provisions/Total Loan Portfolio ratio increased from 6% at year end 2003 to 10% at year end 2004, making BoG one of the most conservatively provisioned bank in Georgia. The share price by the end of December 2004 stood at GEL 5.6, a 173% appreciation during 2004.

The increased profitability across the Bank's principal business lines and the loan portfolio cleanup translated into a profitable start of 2005, paving the way for the aggressive implementation of the Bank's growth plan. In Q1 2005, the Bank initiated a major infrastructure upgrade entailing the replacement of the card processing system of Georgian Card with Transmaster™ supplied by TietoEnator, as well as the purchasing of 40 ATMs from Wincor Nixdorf. The Bank overhauled its retail products lineup, launching in rapid succession in March – May 2005 Enhanced Current Accounts, Microloan + (a bundled product targeting the small business sector), Hypo+ (a flexible offset mortgage bundled product) and Auto + (a bundled car loan product).

Marking the successful completion of the initial phase of the turnaround, the Bank reported Net Income of GEL 2.2 million (GEL 2.4 for the entire group) in Q1 05.

In April 2005, given the Bank's dramatically increasing international profile, with foreign institutional and retail shareholders collectively owning approximately 70% of the Bank's equity, the Bank announced its intention to list its shares on a foreign stock exchange, in order to enhance the liquidity and provide easier access to the stock for individual investors.

In May 2005, the Bank announced about the changes in its shareholding structure. Three Firebird Funds increased their shareholding in the Bank by purchasing all the shares previously owned by TBC Bank, demonstrating the increased commitment to the Bank and its development. Through the transaction, that took place on the Georgian Stock Exchange on May 19, 2005, Firebird Avrora Fund, Firebird Republics Fund and Firebird Global Master Fund purchased at GEL 6.45 additional 796,184, 513,625 and 141,279 shares, respectively.

In May 2005, the Bank reported Net Income of approximately GEL 934,022.

Reacting to the accelerating earnings and steady flow of positive news, the Bank's share price stood, on May 31, 2005 at GEL 6.47, a 15% appreciation since the beginning of the year and a 90% appreciation since the new management team joined the Bank in September 2004.

Bank of Georgia's Equity Share In Controlled Affiliates

The table below sets out the Bank's equity interests in its controlled affiliates as of May 31, 2005.

Company	Book Value of investment (GEL)	Share in company's equity
JSC British-Caucasian Insurance Company	4,677,000	100.00%
JSC Galt & Taggart Securities	637,642	75.00%
Georgian Leasing Company	348,106	60.00%
JSC Georgian Card	1,379,598	51.69%

Vision, Mission and Strategy

The Bank's vision is to be recognized as the best financial services group in Georgia.

The Bank's mission is to create long-term value and deliver by 2007 ROE exceeding 20% by building a relationship-driven, client-facing integrated financial services group based on the core values of excellence in execution, teamwork, integrity and trust.

The Bank's strategy builds upon its vision and mission, with the ultimate strategic objective to enhance shareholder value through creating by 2007 attractive exit opportunities for its shareholders. The management believes that this strategy will be best accomplished by (i) evolving into one of the largest integrated universal banks with a diversified portfolio of financial services businesses, thus becoming an attractive acquisition target for certain European, Turkish, Russian or other banks, and (ii) further improvement of the Bank's stock liquidity by adhering to international standards of corporate governance, transparency and investor relations, listing on an international stock exchange and gradually increasing the free float of the Bank's stock.

Retail Banking

The Bank intends to democratize retail banking in Georgia by making appropriate financial services products part a ubiquity of everyday life of a broad spectrum of consumer segments. To achieve this goal, the Bank's management has identified the following key objectives:

Develop Innovative Retail Products and Package Them Attractively

The Bank is continuously redesigning and enhancing its retail product range, leveraging its competitive advantage of owning BCI and Galt & Taggart by packaging basic banking products, such as current accounts and debit cards, with a variety of loan products, including consumer loans, credit cards and mortgage loans, and various insurance and wealth management products. Since March 2005 the new products introduced by the Bank include Enhanced Current Accounts, with multi currency features; MicroLoan+, a product tailored to the needs of small and medium sized business owners; Hypo+, the first ever flexible offset mortgage available to home buyers; Auto+, automotive car loan package, rolled out at most major car dealers, introducing convenient long-term instalment payment option to car buyers.

Effectively Serve a Large Portion of the Market

Recognizing the limiting effect on its organic growth of the overall size of the Georgian retail financial services market, the Bank aims at maximizing its market reach by offering appropriate products and tailored packages to a broad spectrum of carefully selected and defined population segments, rather than "being all things to all people". A system of continuous client feedback is being established, enabling the Bank to adjust the design and key parameters of its products and packages and tailor them better to the needs of specific client segments. The Bank is in the process of acquiring and installing state-of-the-art CRM and credit scoring software platforms to offer its clients better and more flexible access to suitable products.

Achieve Effective and Harmonized Multi-Channel Delivery of Retail Products

The Bank operates one of the largest service center networks in Georgia, is also in the process of expanding its ATM network from 17 to 40 ATMs and offers a competitive online banking service. The Bank intends to establish a modern call center and harmonize, through the deployment of sophisticated CRM and client data aggregation and management software solutions, client experience across these main delivery channels, including (i) client identification and logon procedures, (ii) comprehensive menu of basic banking transactions, (iii) effective system of escalation and follow-up on the leads for more complex products, such as, for instance, mortgage loans, life insurance and goal-oriented saving products, and (iv) effective system of logging, tracking and solving quality of service issues and client complaints. The Bank intends to undertake a comprehensive training program for its front-office personnel employed at the service centers in order to enhance the quality of service.

Additionally, the Bank offers a competitive SMS-driven mobile banking service, allowing automatic delivery of transactional information to the clients' mobile phones and SMS-based client queries.

The Bank is developing additional distribution channels for its retail products by establishing alliances and distribution agreements with various entities, including, without limitation, real estate developers, travel agencies, and consumer electronics, white goods and furniture retailers. The redesigned branch network comprises the following types of branches: (i) Full Service Branches that offer inter alia, utility payment and cash payment services, 24 hour zone with ATMs, online terminal and service phone and where RB lending officers and CIB SME account managers serve their clients; (ii) Legacy Retail Loan Centers, that are separated from full-service branches to serve solely lower-income segment; (iii) Service Centers, that are located in shopping malls or on the premises of established retailers; and (iv) Service Outlets, enclosed in partners' premises, such as, for instance, service outlets established at AXIS, the real estate developer, SKY.GE, the travel agency and Tbilisi Airport.

Corporate & Investment Banking

The Banks aims at becoming the financial partner of choice to leading Georgian corporate clients and foreign entities operating in Georgia. To achieve this goal, the Bank's management has identified the following key objectives:

Further Refinements To The Client Coverage Model

The Bank has centralized and streamlined corporate client coverage along the sector lines. All account managers in Tbilisi and Rustavi focus on a specific sector. A separate group of account managers focuses on SME clients throughout Tbilisi. CIB is managed by the Executive Committee ("CIB ExCo") comprising of senior managers of the Bank and BCI and senior investment bankers employed by Galt & Taggart. In May 2005, the Bank rolled out the client coverage model throughout the country.

Focus on Coordination and Cross-Selling

Management systems and procedures have been put in place enabling account managers to effectively communicate with the CIB ExCo, peers and colleagues from RB, BCI, Galt & Taggart and Georgian Leasing Company both prior to and as a follow-up to client pitches. Meeting reports are circulated by the account managers after every client meeting and stored on a server with shared access. The Bank is redesigned its performance measurement and bonus compensation systems to encourage focus on fee & commission income through cross-selling payroll services, leasing, insurance and investment banking services and to discourage lending to big corporate clients when no opportunity to sell additional services exists.

Offer Innovative Services

The Bank intends to continue leveraging its competitive advantage in trade finance, leasing, investment banking and insurance to keep offering a broad spectrum of documentary operations, leasing, loan syndication, corporate finance & capital-raising and insurance services in addition to the basic corporate lending products that are offered by most of its competitors.

BCI

BCI's strategy is to (i) enhance its market position in the corporate sector by actively engaging in cross-selling its insurance products together with the Bank's products and services and (ii) achieve a leading market position in the consumer segment (including, without limitation, life & medical insurance) by pursuing a coherent *bancassurance* strategy leveraging the Bank's retail distribution channels.

Asset & Wealth Management

The Banks aims at enhancing its market position in asset & wealth management by (i) continuing to offer sophisticated, research-driven broker-dealer services to institutional and retail investors, (ii) leveraging its competitive advantage in asset management expertise to offer a highly competitive pension product, and (iii) combine specially designed banking products with discretionary asset management services of Galt & Taggart to offer, through a dedicated group of trained private bankers, a sophisticated wealth management service.

Asset and Wealth Management services, offered by Galt & Taggart, stand out as the most sophisticated services of this kind currently available in Georgia. Currently, Galt & Taggart is the only full-service investment banking firm in Georgia providing research and execution in all major securities traded in the country, with 100+ active domestic and international clients.

Private Banking focuses on helping affluent individuals (expatriates as well as wealthy locals) protect and manage their wealth by offering them financial advice and tailored investment strategies. By assigning a Private Banker to each of 100+ clients, the Bank puts trust and convenience at the cornerstone of its client relationship. The Private Bankers, who serve as the dedicated point of contact between the client and the Bank, are trained to identify the needs of their clients and offer not only advanced and hassle-free banking services but also variety of other financial and insurance products. Such additional products and services include, but are not limited to, the multi-currency OneCard current account, which offers high interest rate on daily balances combined with the flexibility of non-restricted spending/withdrawal similar to that of a regular checking account, expeditious credit line/overdraft approval, health and life insurance, financial planning and portfolio management available through BCI and Galt & Taggart. Finally, Private Banking intends to offer lifestyle management services via special relationships with some of the major vendors (travel agencies and airlines, high-end shops and restaurants, fitness centers, entertainment venues and clubs, art galleries) in the country.

In June 2005, the Bank launched the Private Pension Plan, a product developed together with BCI. BCI has commenced the marketing of the Private Pension Plan to corporate clients and individuals. The Private Pension Plan has been made available to the Bank of Georgia Group employees and will be offering voluntary pension fund management schemes to the Bank's corporate clients, with the assets being managed by A&WM drawing upon the experience of Galt & Taggart, whose assets under management and/or custody (AUMC) reached GEL 22.0 million by Q1 2005.

Corporate Center

The Bank intends to support the rapid growth and development of its four client-facing SBUs through accomplishing the following objectives:

Diversify Funding Sources

In addition to its current funding base, the Bank will seek to further diversify its funding sources. In particular, the Bank plans to (i) raise additional deposits from a wide range of individuals and corporate clients, (ii) seek additional credit lines from the international financial institutions, (iii) access local capital markets (through this and other potential transactions), and (iv) seek to raise additional equity in order to fund the capital expenditures aimed at enhancing its retail distribution network and IT systems.

Enhance and Strengthen IT Systems

The Bank is pursuing a comprehensive program of (i) redesigning its network architecture, (ii) enhancing the flexibility of its core processing platform, (iii) deploying sophisticated CRM and client data aggregation and management software, (iv) developing basic product and credit scoring systems, and (v) enhancing the management reporting and analytical functionality of its systems.

Additionally, in Q1 2005, Georgian Card has embarked on a comprehensive upgrade of its card processing platform. By Q3 2005, the existing platform will be replaced by the highly scalable Transmaster™, the card processing system supplied by TietoEnator. Transmaster™ comprises software solutions for the issuance, acquiring, switching and clearing of plastic cards with magnetic stripes and EMV systems.

Refine Risk Management Systems

The Bank seeks to minimize its overall risk exposure by continuously improving its risk management policies and systems. The Bank is in the process of redesigning its credit risk management framework and establishing a framework for operational risk management. The Bank also aims to improve the flow of information and enhance its internal policies designed to focus management's attention on developing strategies for responding to potential risk scenarios.

Additionally, the Bank is a founding shareholder of Credit Info Georgia ("CIG"), together with TBC Bank and ProCredit Bank Georgia, and intends to aid the development of CIG into a fully-fledged credit bureau.

Banking Services and Activities

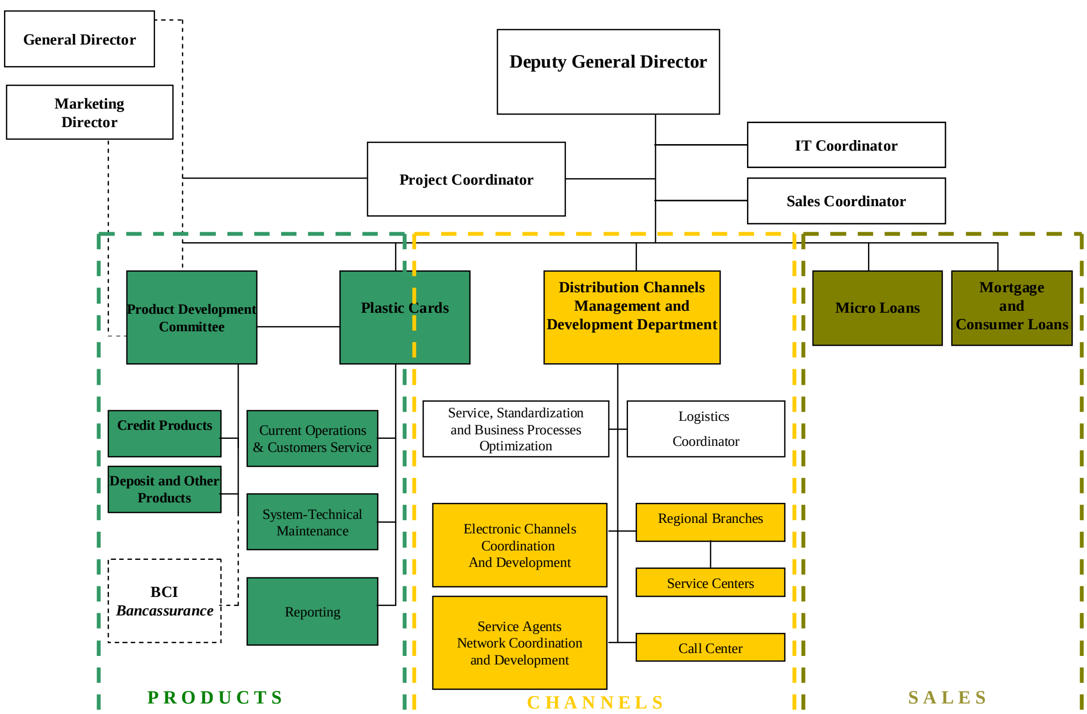
The Bank's principal banking services and activities are carried out by the RB and CIB SBUs.

RB

The retail banking activities carried out by RB comprise offering individuals current accounts and debit cards, demand and time deposits, consumer loans (including loans for the purchase of household goods, cars, travel and medical care), credit cards and mortgage loans, foreign exchange services, money transfers (including via Western Union) payments of utility, mobile phone and other bills in service centers and online, and other products and services (including legacy retail loans).

Additionally, the Bank operates a rapidly growing microlending program for individual entrepreneurs and micro and small enterprises, which is an integral part of the RB SBU. In Q1 2005, the Bank issued approximately GEL 6.8 million worth of micro loans, a y-o-y increase of 34%. By April 30, 2005 the microloan portfolio stood at GEL 26.6 million.

The following table sets out the organizational structure of the RB SBU as of April 30, 2005.



The following table sets out a breakdown of the Bank's RB loan portfolio by type of loan as of April 30, 2005.

GEL '000s unless otherwise noted	**Portfolio**
Mortgage Loans	19,971
Number of Mortgage Loans	*844*
Consumer Loans	16,096
Number of Consumer Loans	*4,633*
Microloans	26,632
Number of Microloans	*4,977*
Legacy Retail Loans	18,947
Number of Legacy Retail Loans	*87,881*
Plastic Cards Overdrafts & Balances	2,211
Number	*4,229*
Total	**83,857**

The Bank offers competitive consumer finance products in association with various household goods and services merchants. As of April 30 2005, the Bank had distribution agreements with 57 merchants.

The Bank increased its consumer lending sales force from seven officers as of 30 September 2004 to 41 officers as of April 30, 2005. The aggregate RB loan portfolio (excluding the Microloan portfolio) stood at GEL 57.2 million as at April 30, 2005, approximately 30% increase from December 31, 2004.

The following table sets out a breakdown of the Bank's RB loan portfolio by months remaining to maturity as of April 30, 2005.

GEL '000 unless otherwise noted

Months to Maturity	**Number of Loans**	*%*	**Aggregate Outstanding Principal**	*%*
Less than 1 month	850	0.8%	1,911,660	2.3%
1-3	63,631	62.0%	17,058,086	20.3%
3-6	31,513	30.7%	10,648,894	12.7%
6-12	3,551	3.5%	13,284,107	15.8%
12 and more	3,016	2.9%	40,953,976	48.8%
Total	**102,561**	100.00%	**83,856,723**	100.00%

The following table sets out a breakdown of the Bank's RB loan portfolio as of April 30, 2005 by underlying currency.

GEL '000, unless otherwise noted	**RB Portfolio**
RB Earning Assets	83,857
GEL	*12,314*
US$	*68,714*
EUR	*2,829*

Plastic Cards

The Bank was a co-founder of Georgian Card, the first card processing center in Georgia, which was established in 1996. BoG has been a principal member of Europay International (subsequently MasterCard) and VISA International since 1997 and 1998, respectively.

The Bank issues a variety of VISA and MasterCard cards which are accepted worldwide. As of 30 April 2005, the Bank had 43,341 cards in issuance, an approximately 30% market share in Georgia. The range of the Bank's card products covers several key market segments, from VISA Electron and Maestro debit cards for the participants of the various payroll services programs the Bank has established for its corporate clients to VISA and MasterCard, gold and classic, tailored to meet the needs of the affluent segment of the population. The issuance of cards by the Bank continues to accelerate, with 10,844 cards issued in Q1 2005 compared to 5,642 cards issued in Q4 2004.

Additionally, the Bank issues MasterCard Platinum and the multi-currency OneCard which have proven particularly attractive to the Bank's private banking clients.

The MasterCard Platinum Card features sizeable overdrafts and is enhanced with IAPA membership and Priority Pass, which enable the cardholders to use the VIP halls of 245 airports in 80 countries, rent cars at discounted prices in 200 countries and receive discounts at prestigious hotels. The OneCard, which the management believes to be internationally competitive, offers the cardholders an opportunity to link to the same card up to five accounts in different currencies (GEL, US$, Euro, Pound Sterling and Russian Ruble), with comprehensive online and SMS banking functionality and high interest rates on average daily balances across all the currencies (5% to 7.5% APR, accrued monthly, depending on the overall assets of the client deployed at the Bank and his usage of other Bank products). As such, the OneCard is designed to replace all of the current and savings account needs of the client with one attractively packaged product.

The Bank is in the process of reviewing and enhancing its range of card products with a view to equipping all of its current account holders with a debit card and online and (eventually) telephone banking facilities, allowing the client easy and harmonized access to all of the Bank's delivery channels.

The Bank operates one of the largest ATM networks in Georgia, with 17 ATMs in service as of April 30, 2005. The Bank's ATMs are located in attractive high-traffic locations throughout Tbilisi and Batumi. The 40 new generation ATMs, purchased by the Bank from Wincor Nixdorf in Q1 2005, are intended to replace all of the existing ATMs and the remainder will be deployed at new locations in Tbilisi and throughout the country over the course of 2005.

The Bank has historically concentrated on card issuance, rather than merchant acquiring, but holds the merchant acquiring license from MasterCard and is in the process of obtaining for the VISA merchant acquiring license, preliminary approval of which was granted in May 2005. As of April 30, 2005, the Bank operated 57 POS terminals throughout Tbilisi.

The Bank acquired in October 2004 a controlling equity interest in Georgian Card, with Bank Republic owning an approximately 39% additional equity interest in Georgian Card. A comprehensive platform upgrade plan entailing the replacement of card processing system with Transmaster™ supplied by TietoEnator is in the process of being implemented. Additionally, the tariffs of Georgian Card have been reduced significantly in January 2005, in order to further enhance the competitiveness of the participating banks' card products.

The Bank offers a variety of savings accounts and term deposits to individuals. The following tables set out a breakdown of the Bank's retail deposit base by number of deposits, currency, interest rate and months remaining to maturity as of April 30, 2005.

Deposits of Individuals by types and currencies

Type	Currency	Number	Volume (GEL)	% of Number	% of Volume
Current Accounts	GEL	22,373	3,493,763	26.90%	2.72%
	Other	23,532	25,403,366	28.29%	19.80%
	Total	**45,905**	**28,897,129**	**55.18%**	**22.53%**
Saving Accounts	GEL	24,920	5,111,348	29.96%	3.98%
	Other	5,624	17,565,006	6.76%	13.69%
	Total	**30,544**	**22,676,354**	**36.72%**	**17.68%**
Time Deposits	GEL	792	2,278,508	0.95%	1.78%
	Other	5,944	74,416,704	7.15%	58.02%
	Total	**6,736**	**76,695,212**	**8.10%**	**59.79%**
Total	GEL	48,085	10,883,619	57.80%	8.49%
	Other	35,100	117,385,076	42.20%	91.51%
	Total	**83,185**	**128,268,695**	**100.00%**	**100.00%**

Current Account Balances, Demand Deposits and Time Deposits of Individuals by size

Range (GEL)	Number	Volume (GEL)	% of Number	% of Volume
0-10	49,199	122,067	59.14%	0.10%
10-30	5,684	136,963	6.83%	0.11%
30-100	5,808	478,047	6.98%	0.37%
100-200	4060	769,945	4.88%	0.60%
200-1,000	8,868	6,183,120	10.66%	4.82%
1,000-5,000	6,330	27,487,890	7.61%	21.43%
5,000-10,000	1,796	23,807,321	2.16%	18.56%
10,000-50,000	1,313	46,141,547	1.58%	35.97%
50,000-100,000	97	11,872,022	0.12%	9.26%
over 100,000	30	11,269,773	0.04%	8.79%
Total	**83,185**	**128,268,695**	**100.00%**	**100.00%**

The following tables set out a further breakdown of the time deposits of individuals by maturities and interest rates as of April 30, 2005.

Time Deposits of Individuals by maturities

Maturity	Number	Volume (GEL)	% of Number	% of Volume
Less than 1 months	1	1,825	0.01%	0.00%
1-3 months	581	6,793,917	8.63%	8.86%
3-6 months	1,667	15,582,794	24.75%	20.32%
6-9 months	431	3,648,562	6.40%	4.76%
9-12 months	1,362	14,194,043	20.22%	18.51%
12 months and over	2,694	36,474,070	39.99%	47.56%
Total	**6,736**	**76,695,212**	**100.00%**	**100.00%**

Time Deposits of Individuals by interest rates

Annual Interest Rate	Number	Volume (GEL)	% of Number	% of Volume
less than 4%	25	32,561	0.37%	0.04%
4%-5%	97	1,120,992	1.44%	1.46%
5%-6%	783	8,925,171	11.62%	11.64%
6%-7%	171	1,214,012	2.54%	1.58%
7%-8%	1,052	9,285,836	15.62%	12.11%
8%-9%	917	8,183,353	13.61%	10.67%
9%-10%	2,183	29,523,880	32.41%	38.50%
10%-11%	1,001	14,337,895	14.86%	18.69%
11%-12%	417	873,640	6.19%	1.14%
12% and over	90	3,197,873	1.34%	4.17%
Total	**6,736**	**76,695,212**	**100.00%**	**100.00%**

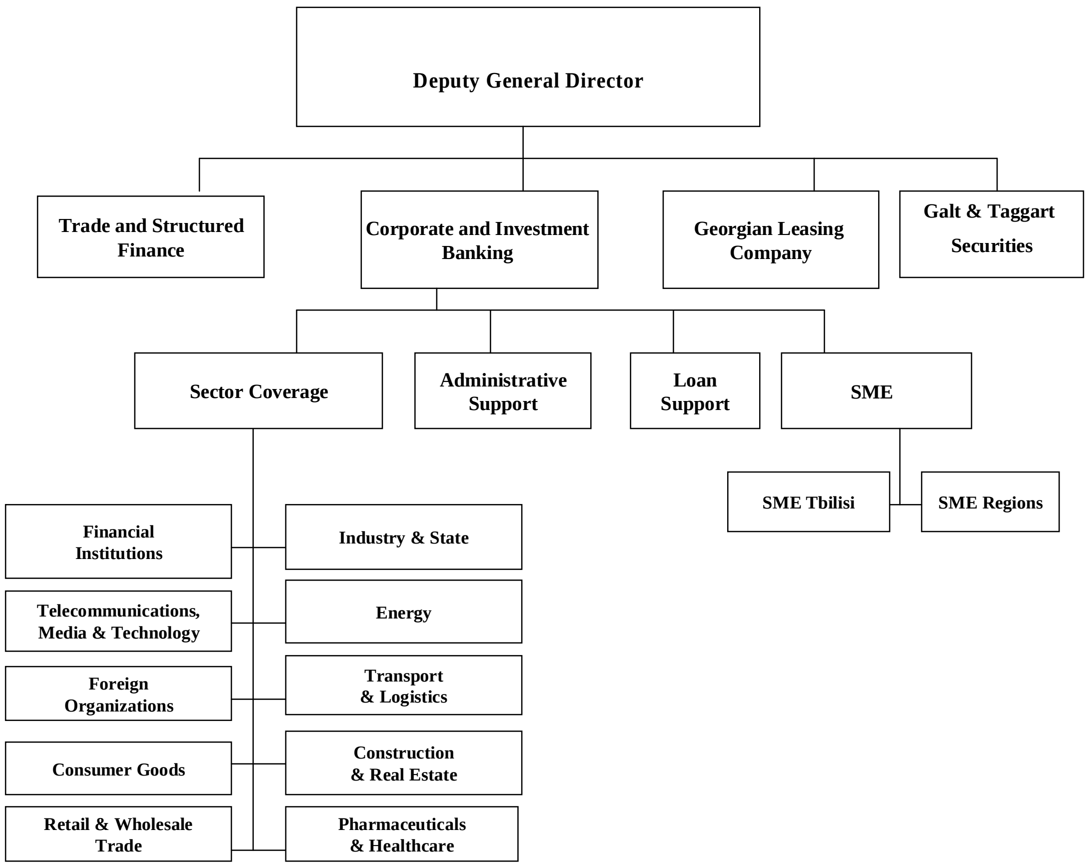
In addition to the traditional retail banking products, the Bank is in the process of implementing a *bancassurance* strategy by way of offering a specially designed range of life, health and property insurance products offered by BCI to its retail banking clients.

The Bank distributes its retail banking and insurance products through its network of 54 branches and service centers. Additionally, the clients may avail themselves of the Bank's services online, through the SMS banking facility, and through the Bank's ATM network. The Bank operates a basic call center facility, which the management intends to radically overhaul and upgrade in 2005.

CIB

The Bank pursues an integrated client coverage model, whereby a broad spectrum of corporate banking, leasing and investment banking is offered to corporate clients by their dedicated account managers. The 26 account managers covering large corporate clients in throughout the country are each assigned a subset of corporate clients within a particular sector.

The following table sets out the organizational structure of the CIB SBU as of April 30, 2005.



In addition to the account managers covering large corporate clients on a sector basis, a separate group of seven account managers covers the SME client base in Tbilisi and Rustavi. Account managers based in the regional branches also cover SME clients.

The following table sets out a breakdown of the Bank's corporate loan portfolio by sector as of April 30, 2005.

GEL'000 unless otherwise noted	Gross Loans	%
Retail & Wholesale Trade	64,850	48%
Construction & Real Estate	13,846	10%
Mining & Processing	27,074	20%
Telecommunications, Transport & Logistics	4,630	3%
Consumer Goods	17,836	13%
Other	8,028	6%
Total	**136,263**	**100%**

As of April 30, 2005 the Bank had approximately 400 corporate clients, resulting in a client-to-account manager ratio of 15.4 (including the account managers in the Bank's regional branches). The management intends to recruit account managers selectively in order to improve the breadth and depth of client coverage.

The account managers covering corporate clients are tasked to bring in, at an appropriate time, product specialists from the Bank's Trade & Structured Finance desk, leasing professionals from GLC, insurance professionals from BCI, investment banking professionals from Galt & Taggart, and pensions and asset management professionals from BCI and Galt & Taggart in order to sell the broadest possible spectrum of products and services to the Bank's corporate client base. In addition, the Bank has commenced cross-selling CIB services to BCI's corporate client base.

The Bank offers a variety of demand accounts and term deposits to corporate clients. The following table sets out a breakdown of the Bank's corporate deposit base by number of deposits and currency type as of April 30, 2005.

Deposits of Corporate Clients by their types and currencies

Type	**Currency**	**Number**	**Volume (GEL)**	**% of Number**	**% of Volume**
Current Accounts	GEL	12,051	49,823,304	75.73%	46.29%
	Other	3,649	48,328,541	22.93%	44.90%
	Total	**15,700**	**98,151,845**	**98.66%**	**91.20%**
Demand Deposits	GEL	14	225,642	0.09%	0.21%
	Other	97	1,745,125	0.61%	1.62%
	Total	**111**	**1,970,767**	**0.70%**	**1.83%**
Time Deposits	GEL	17	1,948,235	0.11%	1.81%
	Other	86	5,553,295	0.54%	5.16%
	Total	**103**	**7,501,530**	**0.65%**	**6.97%**
Total	GEL	12,082	51,997,181	75.92%	48.31%
	Other	3,832	55,626,961	24.08%	51.69%
	Total	**15,914**	**107,624,142**	**100.00%**	**100.00%**

The diversification of the Bank's CIB deposit base as of April 30, 2005 is set out in the following table:

Current Deposits of Corporate Clients by size

Range (GEL)	Number	Volume (GEL)	% of Number	% of Volume
0-10	8,755	24,949	55.01%	0.02%
10-30	1,401	28,331	8.80%	0.03%
30-100	1,413	96,937	8.88%	0.09%
100-200	706	114,601	4.44%	0.11%
200-1,000	1,505	834,085	9.46%	0.77%
1,000-5,000	1,104	3,097,355	6.94%	2.88%
5,000-10,000	303	2,600,795	1.90%	2.42%
10,000-50,000	515	14,339,589	3.24%	13.32%
50,000-100,000	95	8,654,887	0.60%	8.04%
over 100,000	117	77,832,613	0.74%	72.32%
Total	**15,914**	**107,624,142**	**100.00%**	**100.00%**

The following tables set out a further breakdown of the time deposits of corporate clients by maturities and interest rates.

Time Deposits of Corporate Clients by maturities

Maturity	Number	Volume (GEL)	% of Number	% of Volume
Less than 1 months	-	-		
1-3 months	9	749,185	8.74%	9.99%
3-6 months	16	1,242,361	15.53%	16.56%
6-9 months	6	86,270	5.83%	1.15%
9-12 months	26	1,074,777	25.24%	14.33%
12 months and over	46	4,348,938	44.66%	57.97%
Total	**103**	**7,501,531**	**100.00%**	**100.00%**

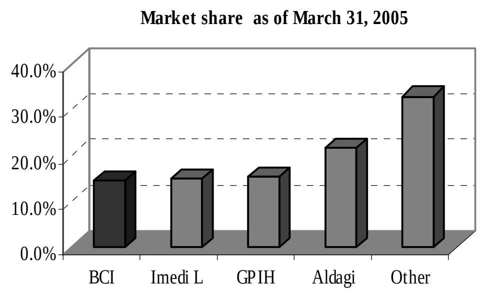
Time Deposits of Corporate Clients by interest rates

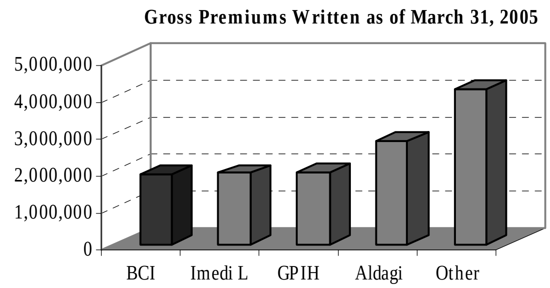
Annual Interest Rate	Number	Volume (GEL)	% of Number	% of Volume
less than 4%	3	1,451,103	2.91%	19.34%
4%-5%	1	3,539	0.97%	0.05%
5%-6%	8	629,338	7.77%	8.39%
6%-7%	4	70,182	3.88%	0.94%
7%-8%	4	59,746	3.88%	0.80%
8%-9%	18	1,407,739	17.48%	18.77%
9%-10%	38	1,627,487	36.89%	21.70%
10%-11%	14	748,352	13.59%	9.98%
11%-12%	7	1,038,670	6.80%	13.85%
12% and over	6	465,375	5.83%	6.20%
Total	**103**	**7,501,531**	**100.00%**	**100.00%**

BCI

BCI, which was acquired by the Bank in November 2004, is one of the leaders of the Georgian insurance market, consistently ranking in the top four local insurance companies by revenue.

The tables below set out the development trends of the insurance services in Georgia and the respective market shares of the four leading local insurance companies.





The tables below set out the audited financial statements of BCI for the years ended December 31 2004 and 2003.

BCI Audited Balance Sheet (IFRS)

GEL '000s unless otherwise noted	Years Ended December 31	
	2004	**2003**
ASSETS		
Cash and cash equivalents	692	565
Deposits with banks	964	688
Insurance premiums receivable, net	1,854	1,496
Other debtors and receivables	74	484
Property, plant and equipment, net	88	80
Intangible assets, net	29	14
Deferred tax assets	13	21
TOTAL ASSETS	**3,714**	**3,348**
Liabilities		
Reserves for unearned premiums, net	1,472	448
Outstanding claims, net	(277)	(151)
Claims reserves, net	188	33
Reinsurance accounts	872	1,451
Other creditors and payables	77	302
Total Liabilities	**2,332**	**2,083**
Shareholders' Equity		
Share capital	1,000	514
Retained earnings	382	751
Total shareholders equity	1,382	1,265
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,714**	**3,348**

BCI Audited Profit and Loss Statement (IFRS)

GEL' 000s unless otherwise noted	Years ended December 31	
	2004	**2003**
Gross premiums written	6,380	4,539
Premiums ceded to reinsurer	(2,732)	(2,546)
Net premiums written	**3,648**	**1,993**
Change in provision for unearned premiums, gross	(783)	(923)
Change in reinsurer's share of provison of unearned premium	(235)	738
Net change in provision of unearned premiums	**(1,018)**	**(185)**
Net premiums earned	**2,630**	**1,808**
Claim paid, gross	(1,533)	(807)
Amounts ceded to reinsurer	1,166	495
Net claims paid	**(367)**	**(312)**
Change in loss provision, gross	(635)	(20)
Change in reinsurer's share of loss provision	480	80
Net change in loss provision	**(155)**	**60**
Net claims incurred	**(522)**	**(252)**
Agents and brokers commissions	(202)	(42)
General and administrative expenses	(1,200)	(512)
Operating taxes	(223)	(183)
Bad debt expense	(40)	(76)
Depreciation and amortization charges	(45)	(32)
General insurance activity results	**398**	**711**
Other income (expense)	(103)	101
Profit before taxation	**295**	**812**
Income tax	(124)	(128)
Net profit for the period	**171**	**684**

Gross premiums written by BCI in Q1 2005 reached GEL 1.9 million, a 28% increase from Q1 2004. BCI closed the first quarter in 2005 with Net Income of GEL 0.17 million.

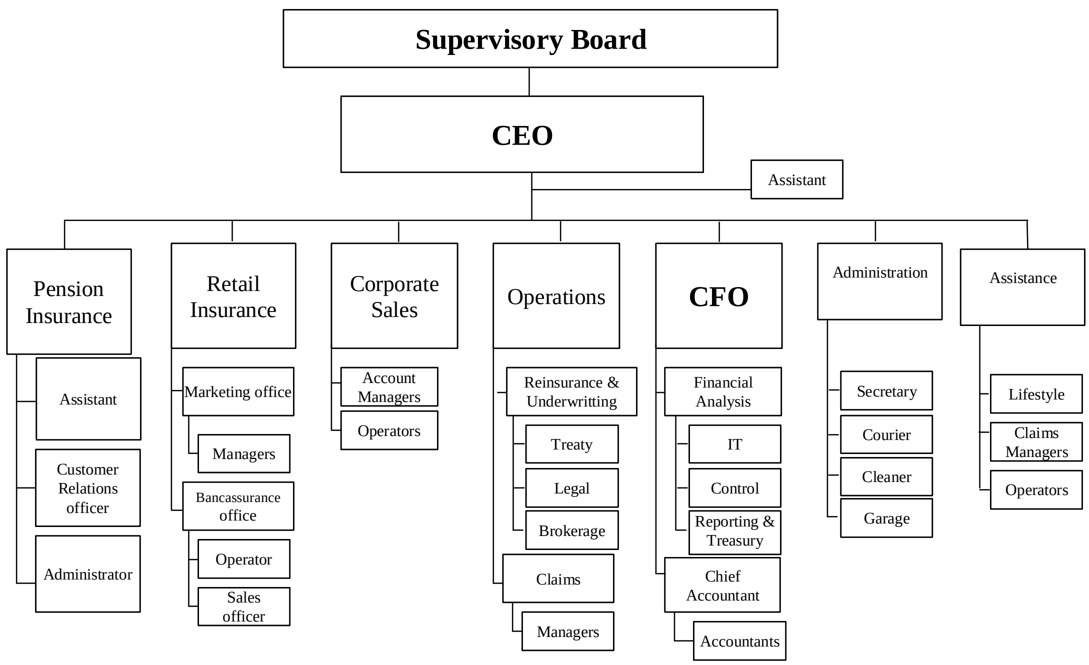
As described above, BCI is in the process of integrating its consumer and corporate insurance products with the RB and CIB SBUs, respectively. The management of BCI believes that the Georgian insurance market, with insurance penetration rate of just 0.46% of GDP as of December 31, 2004, is poised for rapid growth over the next several years, with health insurance, property insurance, liability insurance and, eventually, life insurance and pensions segments in particular expected to undergo significant growth.

BCI cooperates with a number of internationally renowned reinsurers such as Hannover Re., Munich Re., AIG, Lloyd's and SCOR, among others, and adheres to strict reinsurance policies.

BCI operates BCI Assistance, a 24-hour telephone helpline for its health insurance clients. The Bank and BCI are in the process of upgrading BCI Assistance to also cater to the needs of the Bank's private banking clients.

BCI operates a pension scheme open to both individuals and corporate pension plans. While structurally and operationally a part of BCI, the pension scheme is tightly integrated with the Bank and Galt & Taggart, and is managed as part of the A&WM SBU.

The following table sets out the organizational structure of BCI as of April 30, 2005.



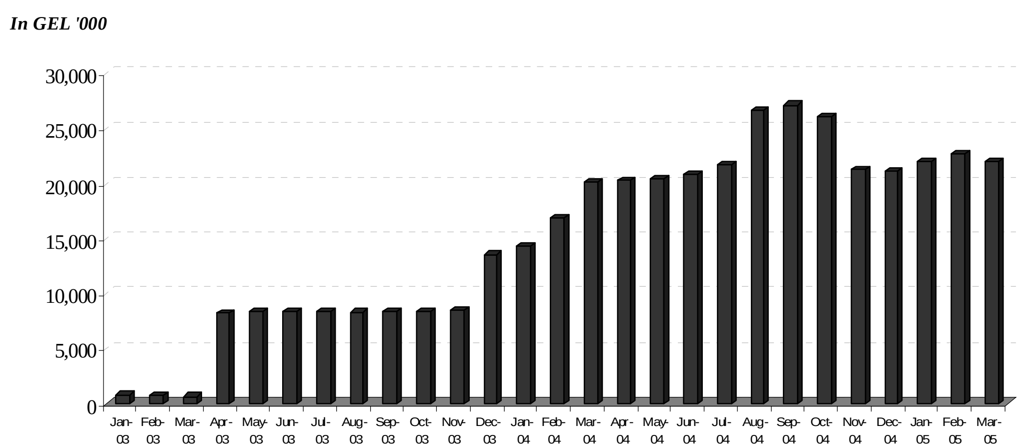
A&WM

The A&WM SBU is in the process of being established by way of integrating the Private Banking unit (currently a structural part of CIB), pensions professionals (employed by BCI) and broker-dealer, research, asset management and back-office professionals of Galt & Taggart.

The Bank employed, as of May 2005, three private bankers, who are assigned on an individual basis to the several dozen private banking clients. OneCard, combined with online and SMS banking and access to a private banker for customized banking services is the core of the Bank's private banking service. Additionally, private banking clients are offered easy access to advisory and discretionary wealth management services of Galt & Taggart and various insurance products offered by BCI. The Bank intends to significantly enhance its private banking service by offering optional lifestyle management services.

In addition to investment banking services, which are integrated into the CIB SBU, Galt & Taggart offers research-driven broker-dealer services with respect to domestic equities and fixed income, as well as asset management and custodial services to resident and non-resident individuals. By April 2005, Galt & Taggart had 329 clients. Management of Galt & Taggart believes that the breadth and execution quality of Galt & Taggart's services are currently unmatched by any competitor active in the Georgian market.

The following table sets out the development of client assets under management and/or custody (AUMC) at Galt & Taggart.

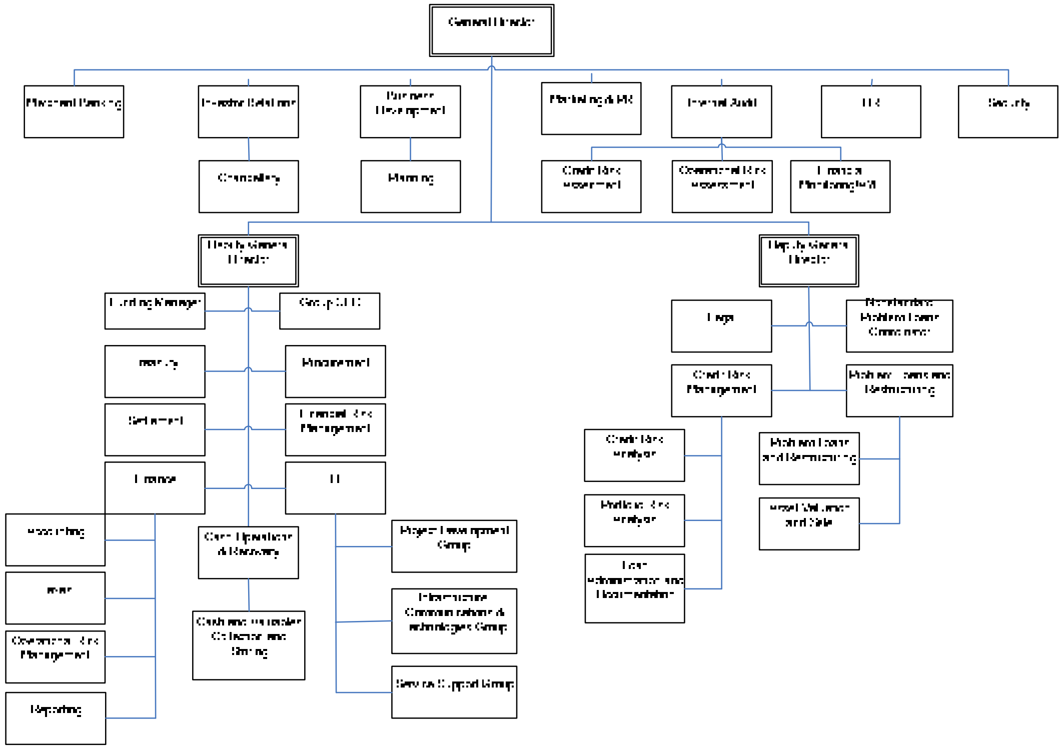


** The year-end 2004 decrease in the AUM/AUC is due to the reregistration by the Firebird Funds of their equity interest in BoG under their own name*

The BCI Private Pension Plan is the third component of the A&WM SBU. The Private Pension Plan is designed to offer its participants a disciplined, conservative investment approach, with domestic Treasuries, bank deposits, foreign fixed-income instruments, selected domestic equities and foreign equities with high dividend yields, selected from a pre-approved list forming the main asset classes of its portfolio. The pension plan will be made available to individuals and corporate clients in June 2005.

Corporate Center

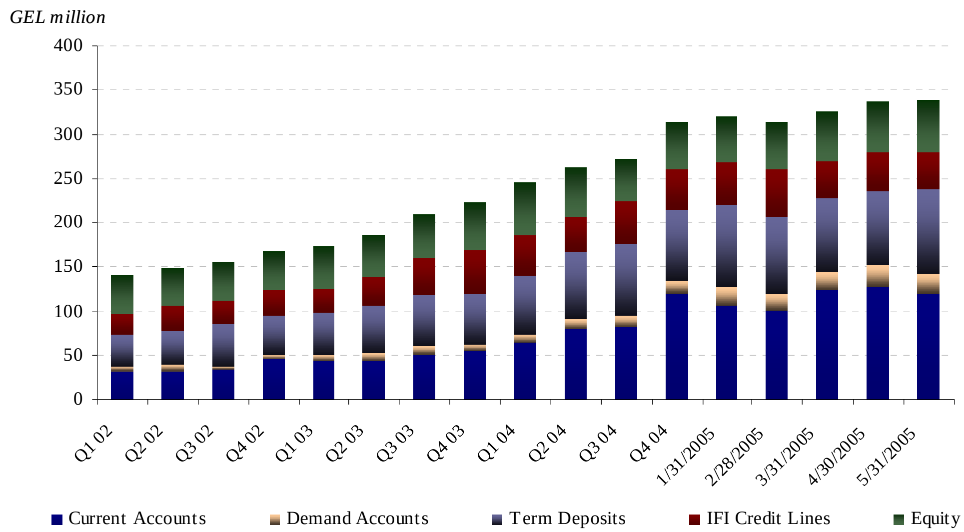
The Corporate Center SBU is comprised of various units involved in the day-to-day management and support activities. The following chart sets out the organizational structure of the Corporate Center as of April 30, 2005.



Funding and Share Liquidity and Price Performance

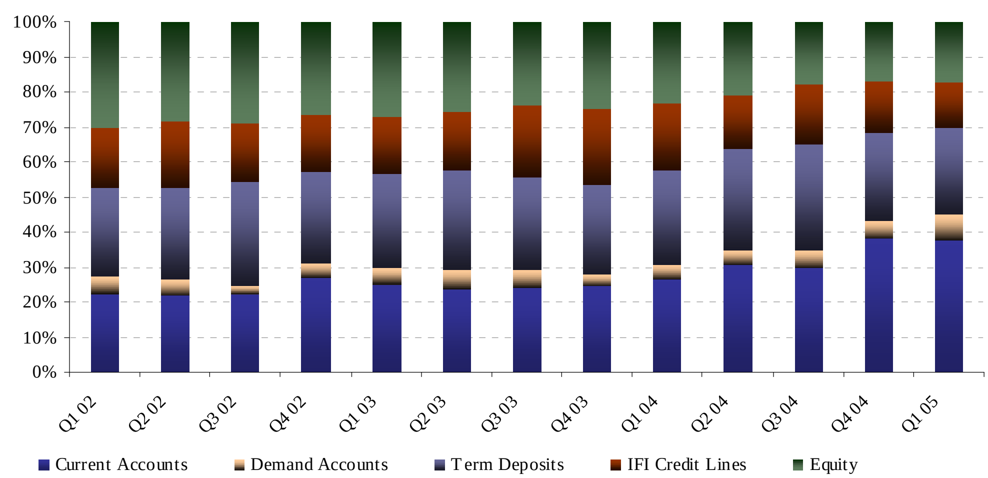
The Bank's principal sources of funding include balances on the clients' current and demand accounts, deposits from retail and corporate clients, loans and credit lines granted by the international financial institutions (including the EBRD, DEG, IFC, and Black Sea Trade and Development Bank), debt instruments (commencing with the current offering of the Bonds) and equity. Management aims at the constant improvement, diversification and reduction in the cost of the Bank's sources of funding.

The following chart sets out the development of the Bank's funding base as of May 31, 2005.



*Note: 2005 data includes TUB

The following chart sets out the changes in the respective shares of the principal sources of funding of the Bank.



Management believes that the Bank is the only Georgian bank to have ever raised new equity capital on the Georgian Stock Exchange. In October and November 2004, three funds managed by Firebird acquired 1,365,996 treasury shares from the Bank at GEL 6.0 per share, increasing the Bank's equity capital by GEL 195,976.

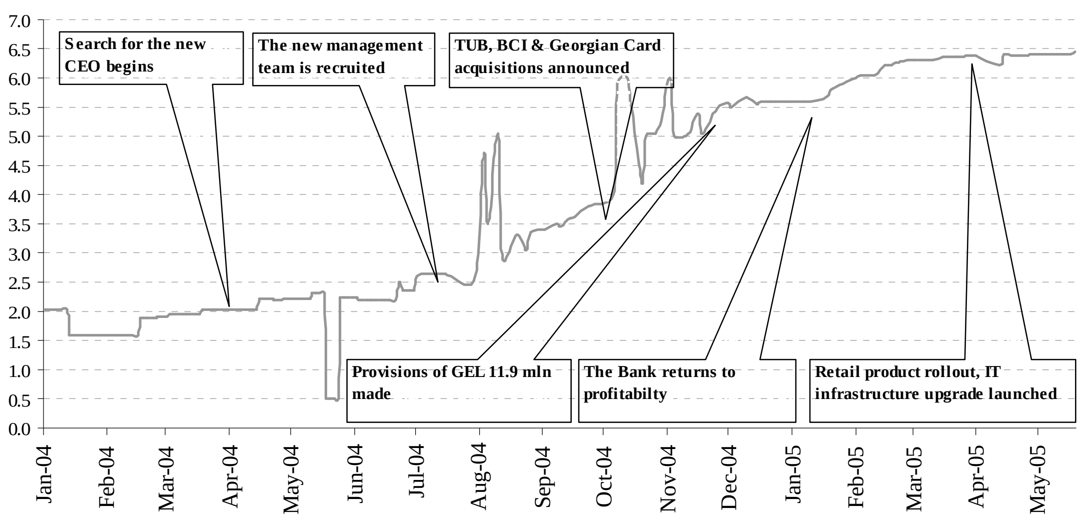
Management pays particular attention to the share liquidity and price performance and engages in a regular dialogue with the Bank's shareholders. Additionally, the Bank's Chief Executive Officer, Chief Financial Officer, Head of Investor Relations and Galt & Taggart professionals continuously aim at diversifying the Bank's shareholder base.

The table below sets outs the development of liquidity of the Bank's shares on the Georgian Stock Exchange.

	2001	2002	2003	2004	Q1 2005	May 31, 05 YTD
Trading Volume, GEL	4,871,737	800,816	229,359	21,442,478	1,462,541	11,818,334
Growth, y-o-y %	328.8%	-83.6%	-71.4%	9248.9%	2122.6%	2053.0%
As % of MCap	15.2%	2.3%	1.1%	38.9%	2.0%	16.0%
As % of GTBCI*	43.5%	15.5%	36.2%	88.3%	8.4%	42.3%
As % of the GSE	37.3%	9.5%	13.2%	45.9%	7.3%	36.7%
Shares Traded	2,533,964	513,492	152,594	4,419,212	241,679	1,851,554
Growth, y-o-y %	343.6%	-79.7%	-70.3%	2796.1%	587.4%	641.6%
As % of Shares Outstanding	25.3%	5.1%	1.5%	44.8%	2.1%	16.1%
As % of GTBCI*	59.4%	21.4%	10.5%	42.1%	1.7%	10.8%
As % of GSE	23.3%	4.5%	1.9%	14.5%	1.5%	7.8%

**Galt & Taggart Blue Chip Index*

The chart below sets out the development of the Bank's share price performance since 1 January 2004.



Employees

As of May 31, 2005, the Bank employed 1,015 persons, including 547 persons in the Corporate Center, 430 persons in the RB SBU and 38 persons in the CIB SBU. Additionally, GLC, Georgian Card, BCI and Galt & Taggart employed, as of April 30, 2005, 6, 27, 45 and 10 persons, respectively.

IT Infrastructure

Information technology is an integral part of the Bank's daily operations. The Bank is constantly implementing new technologies in order to ensure the information support of its present and future business.

In its business activities, the Bank employs a number of sophisticated software solutions, including the Va-Bank core banking system (produced by FORS, a Russian financial software vendor) and online banking system (produced by INIST, a Russian financial software vendor). In addition, Georgian card is in the process of migrating to the Transmaster card processing system (produced by TietoEnator).

Litigation

The Bank has been, and continues to be, the subject and initiator of legal proceedings from time to time, none of which has had, individually or in aggregate, a material adverse effect on the Bank. To management's best knowledge, there are no and have not been any legal or arbitration proceedings against or affecting the Bank or its subsidiaries which may have a significant effect on the consolidated financial position of the Bank.

Asset, Liability and Risk Management

The purpose of the Bank's asset, liability and risk management ("risk management") strategy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of the Bank's activities. The principal categories of risk inherent in the Bank's business are credit risk, market risk (including foreign exchange risk, securities portfolio risk and interest rate risk), liquidity risk and operational risk. The Bank designed its risk management policy to manage these risks by establishing procedures and setting limits which are monitored by the relevant departments of the Bank.

Risk Management Organizational Structure

The Bank's risk management organization is divided between the bodies which are responsible for establishing risk management policies and procedures, including the establishment of limits, and bodies whose functions include the implementation of those policies and procedures, including monitoring and controlling risks and limits on an ongoing basis.

Decision Making

The decision-making level of the Bank's risk management activities is comprised of the Supervisory Board, Management Board, Credit Committee(s) and Asset & Liability Management Committee ("ALCO"). These bodies perform the following functions:

Supervisory Board. The Supervisory Board approves the Bank's Credit Policy and approves certain decisions which fall outside the scope of the Credit Committee's authority (including approvals of single borrower lending exposure exceeding US$2.5 million.

Management Board. The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Credit Committee. The Credit Committee supervises and manages the Bank's credit risks. In particular, the Credit Committee sets the terms of the Bank's standard credit products, approves individual transactions, establishes credit risk categories and provisioning rates and adopts, in consultation with the Chief Executive Officer and Chief Financial Officer, decisions on the acceleration and write-offs of non-performing loans. The Credit Committee is comprised of the sub-committees of four distinct levels. The first-level sub-committee is chaired by the Deputy Director of Credit Risk Management Department and approves loans resulting in the Bank's overall exposure to the borrower of more than US$ 50,000. The second-level sub-committee is chaired by the Director of Credit Department and approves loans resulting in the Bank's overall exposure to the borrower of no more than US$ 150,000. Third-level sub-committees is chaired by the Deputy Chief Executive Officer responsible for credit management and asset recovery and approves loans resulting in the bank's overall exposure to the borrower of no more than US$500,000. The fourth-level sub-committee is chaired by the Chief Executive Officer and approves loans resulting in the Bank's single borrower lending exposure exceeding US$2.5 million. The sub-committees of the Credit Committee meet on an as-needed basis and make their decisions by the majority vote of all of their respective members.

ALCO. The ALCO establishes the Bank's policy with respect to capital adequacy and market risks, including market limits, Value-at-Risk limits on currency and interest rate trading, inter-bank lending limits, manages the Bank's assets and liabilities, establishes the Bank's medium- and long-term liquidity risk management policies and sets interest rate policy and charges with respect to individual credit products. The ALCO is co-chaired by the Chief Executive Officer and Chief Financial Officer, meets on an as-needed basis and makes its decisions by the majority vote of all of its members.

Implementation

The implementation level of the Bank's risk management is comprised of the Risk Management Department and Treasury Department, reporting to the Chief Financial Officer, and Credit Department and Legal Department, reporting to the Deputy Chief Executive Officer responsible for credit management and asset recovery.

Management Reporting

The Bank has implemented a management reporting system which requires the preparation by the relevant departments of the following reports and calculations:

- Daily basis – Income Statement and Balance Sheet, compliance with prudential ratios and covenants, and Treasury report (including with respect to the Bank's open foreign exchange positions, cash flows, limits and balances on the *nostro* correspondent accounts);
- Weekly basis – the Bank is in the process of implementing the weekly preparation of the structural liquidity gap report, interest rate risk calculation and operational risk report; and
- Monthly basis – monthly financial statements, Supervisory Board Report containing analysis of the bank's performance against its budget, and operating expense report.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full when due. Credit risk arises mainly in the context of the bank's lending activities.

The general principles of the Bank's credit policy are outlined in its Credit Policy approved by the Bank's Supervisory Board. This document also outlines credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policy is reviewed annually or more frequently if needed. The Bank is currently in the process of reviewing its Credit Policy, in line with the newly adopted highly conservative stance on lending activities and aggressive provisioning of non-performing loans.

The Bank manages its credit risks by placing limits on the amount of risk accepted with respect to individual corporate clients or a group of related borrowers, industry sectors and standard products, and by complying with the exposure limits established by the NBG. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements.

The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

The Bank's compliance with these exposure limits is monitored by the Credit Risk Management Department on a continuous basis. Exposure and limits are subject to annual or more frequent review.

Under NBG regulations, provisions for loan impairment are established following the borrower's default under the loan or where there is objective evidence of potential inability of the borrower to repay the loan. The Bank creates provisions by reference to individual credit products, calculated based on the borrower's financial condition. The following table sets out the loan classification for individual credit products, as applied by the Bank.

Loan Classification	Loss Potential	NBG Provisioning Range (%)	BoG provisioning allowance (%)
Standard	Almost none	2%	2%
Watch	Relatively low	10%	10%
Substandard	Distinct	30%	30%
Doubtful	High	50%	50%
Loss	Uncollectable	100%	100%

In October 2004, the new management adopted an aggressive provisioning policy, resulting in a significant increase in the provisioning in Q4 2004. Provision charge of GEL 16.1 million was made in Q4 2004, including provisions of GEL 11.95 million made in December 2004, resulting in total new provisions of GEL 20.5 million for 2004. As a result, the Provisions/Total Loan Portfolio ratio increased from 6% at year end 2003 to 10% at year end 2004, making BoG one of the most conservatively provisioned bank in Georgia. In Q1 2005, the Loan Portfolio quality started to improve as Adversely Classified Loans decreased from GEL 44 million (23.9% of Total Loan Portfolio) at the year end 2004 to GEL 40.3 million (19.5% of Total Loan Portfolio) by the end of March 31, 2005.

GEL mln, unless otherwise noted	December 31, 2004				March 31, 2005			
	Portfolio	Loan Loss Reserves	as % of Total Reserves	Breakdown of Portfolio by Categories	Portfolio	Loan Loss Reserves	as % of Total Reserves	Breakdown of Portfolio by Categories
Standard (2% provision)	144.9	2.9	15%	77%	166.4	3.3	14%	81%
Watch (10% provision)	18.3	1.2	6%	10%	14.8	1.5	6%	7%
Sub-standard (30% provision)	5.0	1.2	6%	3%	6.9	2.1	9%	3%
Doubtful (50%-70% provision)	9.0	4.6	24%	5%	5.9	3.6	15%	3%
Loss (100% provision)	11.7	9.2	48%	6%	12.8	12.8	55%	6%
Total	**188.9**	**19.1**	**100%**	**100%**	**206.7**	**23.2**	**100%**	**100%**

Asset Recovery and Sale

The Bank operates the Asset Recovery Department, which reports to the Deputy Chief Executive Officer responsible for credit risk management and asset recovery. As of 31 December 2004, the Bank had off-balance sheet assets worth an estimated GEL 12.7 million and collateral of non-performing loans provisioned at 100% worth an estimated GEL 10.1 million. By the end of Q1 2005, the Bank's management succeeded in recovering assets worth GEL 730,000, an increase from GEL 21,945 during 2004.

Market Risk

The Bank takes on exposure to market risks which arise from open interest and currency positions all of which are exposed to market volatility. The general principles of the Bank's market risk management policy are set out by the ALCO. The goal of the Bank's market risk management activities is to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in the currency exchange rate and interest rates.

The ALCO manages market risks by establishing Value-at-Risk limits on possible losses for each type of operation and the Risk Management Department and Treasury Department monitor compliance with such limits.

Currency Risk

The Bank is exposed to fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting value-at-risk (established by the ALCO) with respect to the Bank's currency basket. The Bank's open currency positions are managed by the Treasury Department on a day-to-day basis and can be monitored by the Head of the Treasury Department on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. At present, the Bank's proprietary trading position is limited by the ALCO to VaR of US$ 50,000 for a one day trading period with 95% of the "tolerance threshold", but the open position is limited to maximum of US$ 1.5 million (approximately 5% of its equity capital). Compliance with these limits is monitored on a daily basis by the Risk Management Department and the Treasury Department. ALCO limit of 5% is conservative than the NBG and Basel guidelines, which allows the banks to keep its position open up to 20% of equity capital.

Interest Rate Risk

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

In line with an established Georgian market practice, the majority of the Bank's assets and deposits have fixed interest rates. The Bank manages its interest rate risk by monitoring its duration gap and by setting value-at-risk limits with respect to interest rates and maintaining an interest rate margin (net interest income as percentage of loan and treasury portfolio) sufficient to cover operational expenses and risk premium. The interest rate margin for 2004 was 13.3%.

The ALCO sets ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities with and without approvals. Compliance with the interest rate policy is monitored by the Risk Management Department and the Treasury Department. At present, there is no effective market in Georgia for hedging interest rate risk.

The table below summarizes the effective interest rates by major currencies for the principal monetary and financial instruments outstanding as of April 30, 2005. (The analysis has been prepared using period-end effective rates.)

	GEL	US$	EUR
Assets	%	%	%
Cash and cash equivalents	0.0		
Trading securities	13.96		
Due from other banks	8.32	6.00	
Mandatory provisions with the NBG	1.50		
Loans and advances to customers	16.40	18.96	14.17
- Retail loans	17.64	20.59	15.30
- Plastic card overdrafts	20.77	21.24	14.40
- Loans to corporate clients	13.71	19.97	14.98
Liabilities			
Due to other banks		6.94	5.92
Customer accounts	5.87	7.75	6.83
- term deposits of legal entities	9.53	8.92	7.53
- term deposits of individuals	9.75	8.67	7.76

For the year ended December 31, 2004, the Bank's interest income was GEL 33,815,697 million and its interest expense was GEL 9,746,199 million, resulting in net interest income of GEL 24,059,495 million.

Liquidity Risk

The Bank is exposed to liquidity risk, arising out of mismatches between the maturities of the Bank's assets and liabilities which may result in the Bank being unable to meet its obligations in a timely manner.

The ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits.

The Bank's short-term overall liquidity is managed by the Treasury Department through interbank lending and reduction of its *nostro* accounts balances. Structural (i.e. medium- and long-term) liquidity is managed by the ALCO through monthly liquidity gap reports which include three-month projections.

The following table outlines the Bank's liquidity position as of 31 December 2004.

GEL '000s	Call Deposit	Demand and less than one month	From 1 to 3 months	From 3 months to 1 year	From 1 - 5 years	More than 5 years	Overdue	Total
Assets								
Cash & cash equivalents	58,670	44,077						102,747
Due from credit institutions	23,245		2,340					25,585
Investment securities								0
- available-for-sale						59		59
- held-to-maturity			1,682	17,887				19,569
Loans and advances to customers		21,269	13,282	31,799	85,710	16,322	1,486	169,868
Total Assets	**81,915**	**65,346**	**17,304**	**49,686**	**85,710**	**16,381**	**1,486**	**317,828**
Liabilities								
Due to credit institutions		3,086	9,520	10,230	16,373	9,125		48,334
Due to customers	158,920	10,810	26,860	44,303	9,881	1,355		252,129
Total liabilities	**158,920**	**13,896**	**36,380**	**54,533**	**26,254**	**10,480**	**0**	**300,463**
Net liquidity gap	**(77,005)**	**51,450**	**(19,076)**	**(4,847)**	**59,456**	**5,901**	**1,486**	**17,365**
Cumulative liquidity gap	**(77,005)**	**(25,555)**	**(44,631)**	**(49,478)**	**9,978**	**15,879**	**17,365**	

The following table outlines the Bank's liquidity position as of May 31, 2005.

GEL '000s	Demand and less than 1 month	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Total
Assets						
Cash & cash equivalents	34,000	0	0	0	0	34,000
Cash & cash equivalents with NBG	27,409	1,000	0	0	0	28,409
Cash & cash equivalents at banks	15,694	903	46	0	0	16,643
Investment securities	157	5,226	10,689	7,229	0	23,301
Loans & advances to customers	42,088	28,237	17,773	28,148	85,861	202,107
Interest and dividends receivables	2,376	0	0	0	0	2,376
Repossessed assets	0	0	0	0	1,890	1,890
Equity investments	0	0	0	0	7,746	7,746
Fixed assets	0	0	0	0	30,122	30,122
Other assets	5,313	0	0	0	4,140	9,453
Total Assets	**127,037**	**35,366**	**28,508**	**35,377**	**129,759**	**356,047**
Liabilities						
Deposits in other banks	247	0	0	258	0	505
Current deposits	119,240	0	0	0	0	119,240
Demand deposits	23,888	0	0	0	0	23,888
Time deposits	11,920	29,105	15,799	25,001	13,914	95,739
Borrowed funds	1,143	7,991	7,275	3,375	21,394	41,179
Taxes and dividends payable	3,327	0	0	0	0	3,327
Other liabilities	12,288	0	0	78	0	12,366
Total Liabilities	**172,055**	**37,096**	**23,074**	**28,712**	**35,308**	**296,246**
Net liquidity gap	**(45,018)**	**(1,730)**	**5,434**	**6,665**	**94,451**	**59,802**
Cumulative liquidity gap	**(45,018)**	**(46,748)**	**(41,314)**	**(34,649)**	**59,802**	

Operational Risks

The Bank is exposed to operational risks, arising out of the variety of the operational activities in which the Bank is engaged. The Bank manages its operational risks by establishing, monitoring and continuously improving its policies relating to the various aspects of the Bank's cash, precious metals, payments, accounting, trading and core processing operations and data backup and disaster recovery arrangements.

At present, the Chief Financial Officer is responsible for the oversight of the Bank's operational risks. In order to better manage risk of losses resulted from inadequate or failed internal processes, people and systems, the Bank has recently recruited the Operational Risk Manager.

Management

The management of the Bank is separated into various levels and sub-levels, each responsible for different aspects of the Bank's overall activities. The highest level of management and the ultimate decision-making body is the General Meeting of Shareholders (the "GMS"). The GMS elects the Supervisory Board, which is responsible for the governance of the Bank, including the establishment of strategy and general supervision. The Supervisory Board appoints the Chief Executive Officer and his Deputies, all of whom collectively comprise the Management Board, which is the executive body of the Bank responsible for day-to-day operations. A brief description of each of the GMS, Supervisory Board and Management Board is set out below.

General Meeting of Shareholders

The GMS is the Bank's highest governance body and is convened by the Supervisory Board at least once a year. The following matters are the exclusive responsibility of the GMS:

- Alteration the Bank's charter (including charter capital, firm name, etc.);
- Determination of the activities of the Bank;
- Election and removal of the Supervisory Board members (and their remuneration);
- Election and removal of the audit committee members (and their remuneration);
- Appointment of the auditors;
- Approval of annual results of the Bank, distribution of profits;
- Purchase of the shares issued by the Bank;
- Total or partial revocation of the shareholders' pre-emptive rights to subscribe for the newly issued shares;
- Termination of or material change in the Bank's activities (including merger, reorganization, liquidation); and
- Participation in the legal proceedings against members of the Supervisory Board and the Management Board, including the appointment of a representative(s) for the said proceedings.

Supervisory Board

The Supervisory Board is responsible for general management matters with the exception of those matters that are designated by law and by the Bank's charter as the exclusive responsibility of the GMS. The Bank's Supervisory Board is comprised of five individuals, meets in person or by telephone as often as necessary, but not less than once every six weeks, and makes its decisions by simple majority, provided that a quorum (of three members) is present. Members of the Supervisory Board are elected by the GMS and may be re-elected an unlimited number of times. The name, position and certain other information for each member of the Supervisory Board are set out below.

Victor Gelovani has been the Chairman of the Supervisory Board since December 2004 and has been a member of the Supervisory Board since March 2002. Mr. Gelovani, a prominent Russian scientist of Georgian descent, is a resident of Moscow and the largest individual shareholder of the Bank. As of May 20, 2005, Mr. Gelovani owned 1,471,675 (12.8%) common shares of the Bank.

Tariel Gvalia has been the Vice Chairman of the Supervisory Board since December 2004. Mr. Gvalia was the founder and Chairman of the Supervisory Board of TUB prior to the sale of TUB to the Bank.

As of May 20, 2005, Mr. Gvalia owned 248,095(2.2%) common shares of the Bank, subject to a lock-up arrangement expiring in December 2007 or earlier in the event of a change of control.

Henry Potter has been a member of the Supervisory Board since June 2002. Mr. Potter is a Senior Banker at the EBRD. As of May 20 2005, the EBRD owned 1,548,878 (13.5%) common shares of the Bank.

Ian Hague has been a member of the Supervisory Board since December 2004. Mr. Hague is the Managing Partner of Firebird. As of May 20, 2005, three investment funds managed by Firebird owned 2,817,084 (24.6%) common shares of the Bank.

Nafiye aboul El Mati has been a member of the Supervisory Board since March 2002. Ms. El Mati is Investment Manager at the DEG. As of May 20, 2005, the DEG owned 1,250,000 (10.9%) common shares of the Bank.

Management Board

The Management Board is the Bank's collective executive body and is appointed by the Supervisory Board. The Management Board is responsible for the Bank's day-to-day management and administration. The name, position and certain other information for each member of the Management Board is set out below.

Lado Gurgenidze has served as the Chief Executive Officer of the Bank since October 2004. Prior to his appointment as the Bank's Chief Executive Officer, Mr. Gurgenidze served as a Managing Director and Regional Manager for Europe at Putnam Lovell NBF, a leading global boutique investment banking firm focusing on the financial services sector and an affiliate of the National Bank of Canada, the sixth largest Canadian bank. Prior to joining Putnam Lovell NBF in July 2003, Mr. Gurgenidze had served in various senior capacities at ABN AMRO Corporate Finance, including as the Head of Technology Corporate Finance (2001-2002) and as the Head of Mergers and Acquisitions in the Emerging European Markets (1998-2000). Prior to moving to London in 1998, Mr. Gurgenidze had served as the Director of ABN AMRO Corporate Finance in Russia & CIS. A career banker with ten years of investment banking experience, Mr. Gurgenidze is a British citizen of Georgian descent. Mr, Gurgenidze was born and raised in Tbilisi, prior to leaving in 1990 to continue his education ion the United States. Mr. Gurgenidze conducted undergraduate studies at the Tbilisi State University and Middlebury College and holds an MBA degree from the Goizueta School of Business of Emory University.

As of May 20, 2005, Mr. Gurgenidze owned 153,908 common shares of the Bank and was entitled to a further 525,000 common shares and options of the Bank provided he serves out the term of his service agreement (expiring in October 2007). Additionally, Mr. Gurgenidze is entitled to receive additional common shares of the Bank subject to performance.

Mr. Gurgenidze serves as the Chairman of Supervisory Board of BCI, Georgian Card and of JSC Nautilus, the fitness center operator in which the Bank owns an approximately 47% equity interest as a result of a loan workout. Additionally, Mr. Gurgenidze is expected to serve in the near future as the Chairman of the Supervisory Board of Galt & Taggart. In May 2005, Mr. Gurgenidze was elected to the Supervisory Board of the GSE.

Irakli Gilauri has served as the Chief Financial Officer of the Bank since September 2004. Before joining the bank, Mr. Gilauri worked as an Associate Banker at the EBRD's Tbilisi and London offices for five years. He originated and executed up to 20 transactions in Georgia and CIS countries in a variety of sectors, including the banking sector. Six of these transactions were the EBRD projects with total volume of equity investment exceeding US$22 million. In 1994-1998, Mr. Gilauri studied at the University of Limerick in the Republic of Ireland, where he obtained a Bachelor's Degree in Business Studies: Economics and Finance. In 2003, Mr. Gilauri won a prestigious Chevening Scholarship granted by the British Council, which enabled him to study at the Cass Business School of the City University, where he obtained the Master of Science Degree in Banking and International Finance.

Lado Robakidze has served as the Deputy Chief Executive Officer of the Bank responsible for the CIB SBU since March 2000. Mr. Robakidze started his career with the Bank as Senior Economist in 1996.

Over the course of the next eight years, Mr. Robakidze served as the Head of Credit and International Relations. Mr. Robakidze spearheaded the development of the Bank's award-winning documentary operations team and attracted a number of the Bank's largest corporate clients.

Vasil Dzotsenidze has served as the Deputy Chief Executive Officer of the Bank responsible for the RB SBU since January 2005. Mr. Dzotsenidze has over ten years of banking sector work experience at a number of major Georgian commercial banks. Prior to joining the Bank Mr. Dzotsenidze served as the CEO of TUB.

Sulkhan Gvalia has served as the Deputy Chief Executive Officer of the Bank responsible for credit management and asset recovery since January 2005. Prior to joining the Bank, Mr. Gvalia served as the deputy chairman of the board of directors of TUB. During his ten years in commercial banking, Mr. Gvalia headed various departments at TUB focusing on credit evaluation, business development and interaction with the IFI's. As of May 20, 2005, Sulkhan Gvalia owned 257,835 common shares of the Bank.

MARKET ENVIRONMENT, COMPETITION AND COMPETITIVE STRENGTHS

Supervision and Regulation by the National Bank of Georgia

Following the dissolution of the USSR in 1991, the former Soviet banking system was disbanded, with each former Soviet republic setting up its own banking system and central bank. In Georgia, The National Bank of Georgia (the "NBG") was formed in 1991 as the successor to the Georgian branch of the State Bank of the USSR.

The first law about banks and banking business was adopted on August 2, 1991, and has subsequently been replaced by the new Law On Commercvial Banking Activities dated 23 June, 1995 (the "Commercial Banking Law"). The NBG's operations are subject to the Organic Law On The National Bank of Georgia, Constitution of Georgia and other legislative acts. The principal task of the NBG is to ensure the stability of the Georgian Lari. The NBG is also entrusted to carry out monetary policy, supervise the banking system, and establish settlement procedures. The basic objective of the NBG's supervisory role is to safeguard the solvency and liquidity of the banking institutions, determine the minimum required amount of the capital and capital adequacy, and other prudential regulations.

The current minimum required capital for banks in Georgia is GEL 6.4 million, which is expected to increase gradually to GEL 12 million by year-end 2008. The NBG has developed a detailed set of rules for assessing the capital adequacy of the banks. For the purposes of assessing the capital adequacy assets of a bank are assigned the weights that reflect the credit and market risk of the asset in question. The NBG strictly and regularly monitors the compliance of the banks with its capital adequacy requirements.

In 2000, the NBG introduced the methodology for the external assessment of the quality of the banking institutions based on the assessment of a banking institution across several dimensions. The CAEL (Capital, Assets, Equity, and Liquidity) system is routinely used by the NBG analysts to assess the performance of the banks and develop a set of recommendations as to what measures need to be taken in order to induce improvements in the financial and operating results of the banking institution in question.

Competitive Landscape

According to the NBG, as of 1 January 2005 20 banks were operating in Georgia, with most of the large banks' operations being based in Tbilisi.

The following table sets out the ranking of the nine largest Georgian banks by asset size as of April 30, 2005.

GEL '000s	***April 30 '05***
TBC Bank	457,647
Bank of Georgia	351,384
Cartu	203,940
ProCredit Bank	196,242
United Georgian Bank	166,318
Bank Republic	152,240
Peoples Bank	73,996
Intellect Bank	48,342
Basis Bank	42,233
Total	**1,692,342**
Other Banks	131,004
Total Sector	**1,823,346**

The following table sets out the ranking of the nine largest banks in Georgia by equity as of April 30, 2005.

GEL '000s	***April 30 '05***
TBC Bank	65,805
Cartu Bank	64,742
Bank of Georgia	57,710
ProCredit Bank	33,464
United Georgian Bank	29,360
Bank Republic	24,020
Peoples Bank	12,085
IntellectBank	10,910
Basis Bank	9,935
Total	**308,032**
Other Banks	**75,618**
Total Sector	**383,650**

In January 2005, Russia's Vneshtorgbank announced that it has acquired a controlling equity interest in the United Georgian Bank. In March 2005, Bank Turan Alem acquired a 49% equity interest in the SilkRoadBank.

Competitive Advantages

Despite the increasing competition, management believes that it has a number of competitive advantages over its competitors, including:

- *Brand Recognition.* The Bank's brand is well known to the Georgian corporate and retail clients. The Bank continues to spend significant sums on marketing and advertising, and is considering enhancing its image to communicate its modernness and innovative approach in addition to the stability and reliability – the characteristics management believes have traditionally been associated with the Bank.
- *Diversified Product Offering.* Management believes that the Bank currently offers the broadest spectrum of financial services in the Georgian market, due to the acquisition of TUB (and GLC) and BCI and consolidation of effective control of Galt & Taggart.
- *Broad Distribution Network.* With 54 branches and service centers, the Bank has one of the largest distribution networks in Georgia and is present in virtually all of the areas with above-average potential of economic growth.
- *Access To Capital.* The Bank is the sole listed (and the most liquid) stock on the Georgian Stock Exchange. Management believes that due to the Bank's listed status, majority ownership by the international financial institutions, foreign institutional investors and foreign individuals, and strict adherence to the best practices of corporate governance and transparency, the Bank has an inherent advantage in terms of raising additional capital for growth and development over the majority of its competitors, including certain banks with majority or minority foreign ownership. In May 2005, the Bank announced about its intention to list the Bank's shares on a foreign stock exchange.
- *Dynamic Management Team.* The Bank believes that it has assembled one of the most impressive management teams in the market, blending harmoniously local banking and insurance experience with international-standard investment banking and financial expertise.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Bonds should carefully consider all information contained in the Prospectus, including the following investment considerations associated with investment in Georgian entities in general and in the Bank, in particular. Although the attention of prospective purchasers is drawn to these investment considerations, they are not intended to be exhaustive and there may be other investment considerations, which should be taken into account in relation to an investment in the Bonds. Prospective purchasers should also note that a feature of emerging markets is that they are subject to rapid change and the information below may be outdated or may become outdated quickly.

Risks Relating to the Bank's Business, Industry and Market Environment

Failure to Implement the Bank's Business Strategies May Adversely Affect Its Competitive Position

The Bank has developed medium and long-term strategy for business development, which includes participation in the banking sector consolidation, introduction of new banking services and diversification into financial services other than retail and corporate banking. Failure to implement these strategies may result in the deterioration of the Bank's competitive position.

Departure of the Bank's Key Personnel May Adversely Impact Its Operations

Success of the Bank's business strategy and operations is largely determined by the quality and continuity of its top and mid-level management. Departure from the Bank of key personnel in general, and top management in particular, may disrupt the established information flow and decision-making processes and have a material adverse impact on the Bank's operations.

Credit, Market, Liquidity and Operational Risks

The Bank is exposed to credit, market, liquidity and operational risks, arising out of the various aspects of its operations and activities, and has established risk management policies and procedures to mitigate such risks. A failure by the bank to strictly adhere to such risk management policies may have an adverse material effect on the business, financial condition, results of operations or prospects.

Inability to Effectively Manage Growth

The Bank may experience a rate of growth that cannot be supported with the resources currently at its disposal. Recruiting additional qualified personnel, establishing or enhancing existing systems and mobilizing the requisite resources may not be accomplished in a timely manner and, consequently, the Bank may not be able to fully realize its growth opportunities.

Inability to Raise Additional Capital

The Bank will require additional capital in order to fund its expansion plans and achieve its growth targets. There can be no assurance that the Bank will remain successful at raising debt and equity funding on attractive terms. Failure of the Bank to do so may hinder its growth prospects and/or materially adversely affect its profitability.

Political and Social Risks Affecting the Bank

The Bank currently operates in Georgia. Georgia has undergone significant political and economic changes in recent years. Certain political, economic, social and other developments in Georgia may have a material adverse effect on the Bank's business. In particular, social unrest, ethnic violence, a reversal of the recent decrease in the level of crime and corruption, and changes in laws or regulations (or in the interpretation of existing laws or regulations), whether caused by change in the government or otherwise, could materially adversely affect the Bank's business, growth, financial condition, results of operations or prospects. Additionally, state authorities have a high degree of discretion in Georgia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner not entirely consistent with law. Arbitrary state action, if directed at the Bank, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Economic Risks Affecting the Bank

The Georgian economy has undergone dramatic changes since the early 1990s in general and, in particular, since the Rose Revolution in November 2003. There can be no assurance that recent positive trends in the Georgian economy, such as the increase in the gross domestic product, stable Lari, low rate of inflation, increasing legalization of the so-called grey sector of the economy and improved tax revenue collection will continue or will not be abruptly reversed. Moreover, the further strengthening of the Lari in real terms relative to US$, further deterioration in the infrastructure, or other factors, could have a material adverse effect on the Georgian economy and/or the Bank's business, financial condition, results of operations or prospects.

Legal and Regulatory Risks Affecting the Bank

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Georgian laws have only recently become effective. As a result of the rapid evolution of the Georgian legal system and relative inexperience of the Georgian judges and courts in the area of business and corporate law, judicial decisions in Georgia are difficult to predict, effective redress is uncertain and the enforcement of pledges or other forms of loan security may be difficult. Additionally, court claims are sometimes used to further political aims. The Bank may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

The application of the laws of any particular country is not always clear or consistent. This is particularly true for Georgia where the pace of legislative drafting has not always kept pace with the demands of the marketplace. Certain Georgian commercial practices and fiscal and regulatory frameworks differ significantly from practices in other jurisdictions. As a result, it is often difficult to hire qualified management and accounting staff who can ensure compliance with changing fiscal and regulatory requirements.

Risks Relating to the Bonds and the Trading Market

No Pricing Benchmarks

Corporate bonds have never been traded on the open marketing Georgia and, in the absence of meaningful market benchmarks, the future market price of the Bonds may fluctuate significantly and may fall below the initial offering price once the Bonds become freely tradable

Lack of Public Market

The Bank has applied for the Bonds to be admitted to trading on the Georgian Stock exchange. However, the Georgian Stock Exchange does not have a high trading volume and an active trading market in the Bonds may not develop or be maintained after the offering. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and trading price of the Bonds.

No Legal Framework or Precedents

Presently there is no comprehensive legal framework in Georgia that regulates the issuance, trading, taxation, redemption and other matters related to corporate fixed income securities. Furthermore, the absence of any precedent transactions makes the application and interpretation of the existing laws in the context of the issuance of the Bonds highly uncertain.

TERMS AND CONDITIONS OF THE BONDS

General Description of the Bonds

The Issuer intends to issue the Bonds in one or more tranches up to the maximum cumulative principal amount of GEL 2,000,000-. The Bond placement will be considered successful if the minimum amount of GEL 200,000 of the Bonds is subscribed to, as determined by the Issuer and the Placement Agent. The Bonds will be issued in the “book entry” registered form, represented by a certificate (depository receipt) in the name of the holders of the Bonds, issued by the registrar.

On each Coupon Payment Date (first such Coupon Payment Date occurring in six months following the Bond issuance date, and subsequent Coupon Payment Dates occurring at six-months intervals following the preceding Coupon Payment Date until maturity) the Issuer shall pay to the Bondholders an amount equal to the accrued interest until such Coupon Payment Date at 11% (eleven per cent.) per annum, less any tax to be withheld at source in accordance with the Georgian law. The Maturity Date of the first tranche of the Bonds issued pursuant to this Prospectus is September 2, 2007, and the Maturity Dates of any subsequent Bond tranches shall be no later than the second anniversary of the issue date with respect to such tranche. The Issuer shall repay the Face Value of the Bonds in full to the Bondholders on the Maturity Date of each Bond tranche, together with any interest accrued but unpaid from the last Coupon Payment Date, less any tax to be withheld at source in accordance with the Georgian law. The funds will be transferred to the account indicated by the Bondholder. In the event that the Maturity Date falls on a non-working day, the next working day will be considered the Maturity Date.

The issue price of the tranche of the Bonds sold pursuant to this Prospectus shall be 100 % (one hundred per cent.) of the Face Value (or GEL 100) of the Bonds.

The Bonds shall rank as unsecured, unsubordinated indebtedness of the Issuer. The Issuer may, at any time following the first anniversary of the Bond issuance date, in its sole discretion, call all of the Bonds outstanding for redemption at 100% (one hundred per cent.) of the Face Value plus the interest accrued but unpaid from the last Coupon Payment Date, less any tax to be withheld at source in accordance with the Georgian law.

Application has been made for the Bonds to be admitted to trading on the GSE and, as such, will be freely tradable and transferable. There is no limitation as to the number of the Bonds any single investor could bid for and buy.

Bond Offering Procedures

The Bonds will be offered by Galt & Taggart (the “Placement Agent”) on the best effort basis. The Issuer and/or the Placement Agent may send the Preliminary Prospectus to potential investors prior to the public offering solely for informational purposes.

After the NSCG approves the Prospectus, the Issuer and/or the Placement Agent will make a public announcement of the Bond offer in accordance with the Georgian law. The Issuer and/or the Placement Agent will provide the investors with the final prospectus prior to the public offering date. The Issuer will place an announcement about the commencement of trading in a major newspaper(s) or other means established by the rules and regulations of the NSCG.

Procedure For Terms and Conditions Changes During The Public Offering

1. In the event that, during the public offering, the Issuer decides to change material terms and conditions of the bonds, such as issue size, price and tenor, the Issuer will effect such changes through the following procedure:

1.1. The Issuer will promptly notify the NSCG and the NBG about such changes in the Prospectus, describing the requisite amendments made to the Prospectus.

1.2. The Issuer will publish a notification in a major newspaper(s) or by other means established by the rules and regulations of the NSCG and will announce the termination of the public offering in the existing form at no charge to the prospective buyers.

1.3. The Issuer will set a term of 30 days for the prospective buyers to respond to the termination announcement and then will be authorized to make an amended public offering.

2. In the event that any of the material terms and conditions are modified as described above, the subscribers will have the right to decline the purchased securities and the Issuer will be obliged to reimburse in full the amounts paid by the subscribers for these securities within 10 days. Those subscribers who do not decline the purchased securities will be offered the Bonds with the amended terms and conditions.

3. In the event that in the process of the public offering other information provided in the Prospectus is modified, the Issuer will be obliged to present a copy of such new (modified) information to the NSCG before making the modifications to the Prospectus in accordance with the procedures defined by the rules and regulations of the NSCG.

Placement, Start and End Date of the Subscription; Subscription Procedures

The primary placement and trading of the Bonds will be conducted by the Placement Agent. Prospective buyers will express their interest in purchasing the Bonds by subscribing to them. The Subscription Date for each Bond tranche will be the third working day from the date of the publication of the registration of the issuance of such tranche of the Bonds by the Placement Agent. The subscription ends in four weeks from the Subscription Date or earlier at the sole discretion of the Issuer and the Placement Agent. In the event that the End Subscription Date falls on a non-working day, the next working day will be considered the End Subscription Date. Interest in purchasing the Bonds may also be expressed during the subscription period by investment intermediaries (which are members of the GSE). The placing of orders before the Subscription Start Date or after the End Subscription Date is not permitted. “Subscription” with respect to the Bond issue contemplated herein refers to the unconditional and irrevocable written declaration of intention by prospective buyers to acquire a specific number of the Bonds and to pay their full price. Amounts corresponding to the price per bond multiplied by the number of the subscribed Bonds will be deposited at a special (escrow) account until the End Subscription Date. Subscription orders will be filled in the order they were received. If, during the subscription period, the predetermined issue (tranche) size is over-subscribed, the purchase orders will be filled pro rata (to the amount of the submitted bids) or in any other manner at the sole discretion of the Issuer and the Placement Agent. Orders placed after the End Subscription Date will not be filled. The Central Securities Depository (the “CSD”) will issue depository receipts to the persons who have acquired the Bonds through the public offering. Bondholders may hold their bonds with the registrar, or elect to keep the Bonds in the nominal ownership of the Placement Agent. Alternatively, the Bonds may be held by a licensed investment intermediary “in the street name”.

Transfer of Ownership and Secondary Trading

The transfer of ownership and the secondary trading of the Bonds are subject to the regulations of the Georgian Law on Securities Market, Chapter 18, other legislative acts of Georgia pertaining to the public offerings of securities and the rules and procedures of the NSCG, the GSE and the CSD. Trading sessions on the GSE are held twice a week, on Tuesdays and Thursdays.

Call Procedures

The Bonds are non-callable for one (1) year after the issuance date. Following the first anniversary of issuance date, the Issuer may redeem all of the Bonds of the tranche at any time, at its sole discretion, at 100% of the Face Value plus interest accrued but unpaid from the last Coupon Payment Date, less any tax to be withheld at source in accordance with the Georgian law. 30 days prior to the early redemption of each tranche, the Issuer will place an announcement in a major newspaper(s), or by other means established by the rules and regulations of the NSCG, indicating the date and terms of the redemption of the Bonds. The Bondholder(s) will present to the Issuer proper identification/authorization forms (unless the Bonds are held “in the street name”, in which case the licensed investment intermediary holding the Bonds in the name of the Bondholder(s) will arrange for the transfer of the redemption amount received from the Issuer to the beneficial owner). After the Issuer determines the validity of the presented documents and the ownership, it will repay the Face

Value plus interest accrued but unpaid from the last Coupon Payment Date to the Bondholder, less any tax to be withheld at source in accordance with the Georgian law. The funds will be transferred to the account indicated by the Bondholder.

TAXATION

The following is a general description of certain Georgian tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in Georgia or elsewhere. Prospective purchasers of the Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this offering Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas.

As of the proposed issue date September 2, 2005 of the Bonds issued pursuant to this Prospectus, interest received by Georgian tax residents and non-residents, including without limitation, interest on all fixed income instruments (such as the Bonds), is taxed at the rate of 10%. The interest tax is withheld at the source of such interest (i.e., in case of the Bonds, by the Issuer) in accordance with the Georgian law.

GENERAL INFORMATION

The Bank's audited financial statements as of year ended December 31, 2004 and 2003, have been audited by E&Y as indicated in their reports with respect thereto, and are incorporated herein by reference in reliance upon the authority of the said firm as experts in accounting and audit.

The Issuer has obtained all necessary consents and approvals in connection with the Bond issue contemplated herein. The Bond issue was authorized by the Issuer's Supervisory Board on December 20, 2004.

Save as disclosed in this Prospectus, there has been no material adverse change in the financial or trading position or prospects of the Issuer.

Save as disclosed in this Prospectus, there are and have not been any legal or arbitration proceedings materially adversely affecting the Issuer, nor is the Issuer aware of any pending or threatened proceeding of this kind which may have a material adverse effect on the consolidated financial position of the Issuer.

EXPERTS

	Name	Address
ISSUER	**JSC Bank of Georgia**	3 Pushkin St. Tbilisi, Georgia 0105
AUDITOR	**Ernst & Young**	4 Rkinis Rigi, Tbilisi, 0105, Georgia
PLACEMENT AGENT	**Galt & Taggart Securities**	74 A Chavchavadze Ave. Tbilisi, Georgia 0162
LEGAL COUNSEL	**American-Georgian Partners**	1 Rustaveli, Suite 54. Tbilisi, Georgia 0105

ANNEX I: 2004 Audited Financial Statements

Bank of Georgia Group
Consolidated Financial Statements

Years ended December 31, 2004 and 2003
Together with Report of Independent Auditors

Ernst & Young Audit, LLC
Leselidze Street, 44
Tbilisi 0105, Georgia
Tel: 995 (32) 75-1064
Fax: 995 (32) 75-1066

REPORT OF INDEPENDENT AUDITORS

To the Shareholders, Supervisory Board and Board of Directors of Bank of Georgia Group –

We have audited the accompanying balance sheet of Bank of Georgia (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We draw attention to Note 20 to the accompanying financial statements. The Bank has a negative cumulative liquidity position through one year. Management has developed and is implementing a plan for improving the Bank's liquidity position, and this plan has been approved by the Board of Directors. The realization of this plan is necessary to ensure that the Bank is able to continue to meet its obligations as they become due and payable.

Ernst & Young Audit, LLC

April 13, 2005

Consolidated Balance Sheets
(Thousands of Georgian Lari)

		December 31,	
	Notes	***2004***	***2003***
Assets			
Cash and cash equivalents	4	102,747	43,626
Amounts due from credit institutions	5	25,585	16,117
Investment securities:	6		
- available-for-sale		59	445
- held-to-maturity		19,569	1,683
Loans to customers	7	169,868	141,780
Investments in associates and non-consolidated subsidiaries	9	588	604
Property and equipment	11	27,159	20,024
Intangible assets	12	6,286	2,025
Tax assets	8	3,407	-
Prepayments		1,077	-
Other assets	13	6,827	3,818
Total assets		**363,172**	**230,122**
Liabilities			
Amounts owed to State institutions		-	4,765
Amounts due to credit institutions	14	48,334	47,637
Amounts due to customers	15	252,129	121,408
Tax liabilities	8	203	771
Provisions	16	970	472
Other liabilities	13	6,076	428
Total liabilities		**307,712**	**175,481**
Minority interest		**1,481**	-
Shareholders' equity	17		
Share capital		11,273	9,856
Additional paid-in capital		13,376	4,530
Reserves		5,492	15,325
Treasury shares		(73)	-
Retained earnings		23,911	24,930
Total shareholders' equity		**53,979**	**54,641**
Total liabilities and shareholders' equity		**363,172**	**230,122**
Financial commitments and contingencies	18	45,299	46,130

Signed and authorized for release on behalf of the Board of the Group

Vladimer Gurgenidze	General Director
Irakli Gilauri	Deputy of General Director

April 13, 2005

The accompanying notes on pages A60 to A82 are an integral part of these consolidated financial statements.

Bank of Georgia Group — Consolidated Financial Statements

Consolidated Statements of Income
(Thousands of Georgian Lari)

	Notes	Years ended December 31, 2004	2003
Interest income			
Loans		32,104	30,004
Securities		1,654	2,295
		33,758	32,299
Interest expense			
Deposits		6,819	5,347
Borrowings		3,100	2,533
		9,919	7,880
Net interest income before provision for impairment		**23,839**	**24,419**
Impairment of interest earning assets	10	20,511	4,105
Net interest income after provision for impairment		**3,328**	**20,314**
Fee and commission income		13,212	11,793
Fee and commission expense		2,534	3,022
Fees and commissions		**10,678**	**8,771**
Gains less losses from foreign currencies:			
- dealing		5,058	4,351
- translation differences		(210)	(483)
Non interest income		**4,848**	**3,868**
Salaries and benefits	19	13,258	9,060
Depreciation and amortisation	11, 12	2,609	2,231
Administrative expenses	19	8,327	8,584
Other impairment and provisions	10	1,559	1,493
Other operating expenses		1,231	-
Non interest expense		**26,984**	**21,368**
Income before income tax expense		**(8,130)**	**11,585**
Income tax (benefit) expense	8	(781)	2,431
Net (loss) income		**(7,349)**	**9,154**
(Loss) Earnings per share	17	(0.778)	0.929

The accompanying notes on pages A60 to A82 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2004 and 2003

(Thousands of Georgian Lari)

	Share capital	***Additional paid-in capital***	***Treasury Shares***	***General reserve***	***Revaluation reserve***	***Retained earnings***	***Total shareholders' equity***
December 31, 2002	**9,856**	**4,530**	**-**	**9,721**	**4,644**	**17,879**	**46,630**
Dividends – ordinary shares	-	-	-	-	-	(2,150)	**(2,150)**
Revaluation, net of tax	-	-	-	-	1,007	-	**1,007**
Transfer	-	-	-	-	(47)	47	**-**
Net income	-	-	-	-	-	9,154	**9,154**
December 31, 2003	**9,856**	**4,530**	**-**	**9,721**	**5,604**	**24,930**	**54,641**
Dividends – ordinary shares	-		-	-	-	(2,500)	**(2,500)**
Treasury shares purchase	-	(4,530)	(1,366)	-	-	(1,003)	**(6,899)**
Treasury shares sales	-	6,830	1,366	-	-	-	**8,196**
Issue of share capital	1,417	6,763	-	-	-	-	**8,180**
Cross shareholding	-	(217)	(73)	-	-	-	**(290)**
Transfers	-		-	(9,721)	(112)	9,833	**-**
Net loss	-		-	-	-	(7,349)	**(7,349)**
December 31, 2004	**11,273**	**13,376**	**(73)**	**-**	**5,492**	**23,911**	**53,979**

The accompanying notes on pages A60 to A82 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Thousands of Georgian Lari)

		Years ended December 31,	
	Notes	**2004**	**2003**
Cash flows from operating activities			
Interest received		33,600	32,891
Interest paid		(10,485)	(7,737)
Fees and commissions received		10,840	9,398
Fees and commissions paid		(2,535)	(3,022)
Realised gains less losses in foreign currencies		5,058	4,351
Recoveries of assets previously written off		739	2,054
Other operating income		2,372	2,395
Salaries and benefits		(13,258)	(9,060)
Administrative and operating and other expenses		(9,558)	(8,584)
Cash flow from operating activities before changes in operating assets and liabilities		**16,773**	**22,686**
Decrease (increase) in operating assets			
Trading securities		-	9,395
Amounts due from credit institutions		(8,692)	(2,774)
Loans to customers		(47,144)	(49,408)
Other assets		(2,923)	(1,857)
Increase (decrease) in operating liabilities			
Amounts due to National Bank and Government		(4,765)	3,498
Amounts due to credit institutions		5,144	14,660
Amounts due to customers		112,562	24,504
Other liabilities		3,039	(443)
Net cash flow from operating activities before income taxes		**73,994**	**20,261**
Corporate income tax paid		(2,587)	(1,961)
Net cash flow from operating activities		**71,407**	**18,300**
Cash flows used in investing activities			
Subsidiaries acquired, net of cash		7,066	-
Purchases of investment securities		(10,107)	(1,683)
Sale (purchase) of investments in non-consolidated subsidiaries		154	(461)
Purchases of property and equipment		(6,106)	(4,484)
Net cash flow used in investing activities		**(8,993)**	**(6,628)**
Cash flows used in financing activities			
Purchase of treasury shares		(6,899)	-
Sale of treasury shares		8,196	-
Dividends paid		(2,376)	(2,125)
Net cash flow used in financing activities		**(1,079)**	**(2,125)**
Exchange rates changes effect on cash and cash equivalents		(2,214)	212
Net change in cash and cash equivalents		**59,121**	**9,759**
Cash and cash equivalents, beginning		**43,626**	**33,867**
Cash and cash equivalents, ending	**4**	**102,747**	**43,626**

The accompanying notes on pages A60 to A82 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

Bank of Georgia is a joint stock company, formed on the basis of the former State Bank Binsotsbanki on October 21, 1994, under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG") on December 15, 1994, as well as licenses for foreign currency operations.

The presented financial statements contain the accounts of Bank of Georgia and its four subsidiaries (the "Group").

The Group accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides commercial and investments banking and insurance services to its commercial and retail customers. Its main office is in Tbilisi and it has 19 branches in Tbilisi, Batumi, Kutaisi, Gori, Poti, Rustavi, Gurjaani, and 31 operating outlets. The Bank's registered legal address is Pushkin Street 3, Tbilisi 0105, Georgia.

As discussed in Note 17, during August 2004, based on Supervisory Board decision and NBG's permission the Group has purchased 1,365,996 shares from its certain owners. Later in 2004, the Group sold those shares to new owners.

As of December 31, 2004, seven shareholders owned 61.97% of the outstanding shares. Other shareholders owned less than 5% individually of the outstanding shares.

Shareholder	**%**
European Bank for Reconstruction and Development	13.74
Victor Gelovani	13.05
TBC-Bank	11.98
DEG	11.09
Firebird Avrora Fund	4.54
Firebird Republics Fund	4.54
Firebird Global Master Fund	3.03
Other	38.03
Total	**100.00**

Following the change in the Group's ownership structure in 2004, the Group's management has been also substantially changed. This particularly concerned top management, including the General Director and the majority of deputies. There were also substantial changes at the middle management level, as well as other employees mainly responsible for the lending activities of the Group.

As of December 31, 2004 and 2003, members of the Supervisory Board and Board of Directors controlled 4,699,603 shares (42.83%) of the Group (2003 – 4,928,504 shares or 50.01%). The Group had an average of 1,023 employees during 2004 (2003 – 865) and 1,106 employees at the end of 2004 (2003 – 878).

2. Basis of Preparation

General

These consolidated financial statements (hereinafter "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies.

The Bank and its subsidiaries are required to maintain their records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. The financial statements are prepared under the

(Thousands of Georgian Lari)

historical cost convention modified for the measurement at fair value of financial assets and liabilities held for trading, as well as revaluation of property.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates with regard to those financial statements relate to the impairment of loans, as discussed in Notes 7 and 10.

Changes in Group's organization

During 2004, the Group acquired stakes in the following enterprises:

Subsidiary	Group's ownership interest	Registered legal address
Georgian Card	50.3%	5 Khodasheni st. Tbilisi, Georgia
TbilUniversalBank	100.0%	70 Kostava ave. Tbilisi, Georgia
Galt & Taggart Securities	53.0%	74/a Chavchavadze ave. Tbilisi, Georgia
British Caucasian Insurance Company	88.0%	50 Chavchavadze ave. Tbilisi, Georgia

These acquisitions have been accounted for using the purchase method. Results of operational activity of those enterprises have been included in the consolidated statements of income from the date of their respective acquisition.

In October 2004, the Bank increased to 50.3% its participation interest in Georgian Card for cash consideration of GEL 625 resulting in total investment to the subsidiary of GEL 1,010. According to the combination agreement, the acquisition cost may be adjusted if before April 30, 2005 if any material intentional misstatements are identified in the subsidiary's financial statements.

In December 2004, the Bank acquired 100% of TbilUniversalBank. The total purchase consideration was GEL 11,253, consisting of cash totalling GEL 3,650, and 1,316,153 common shares of the Bank valued at GEL 7,603. According to the combination agreement, the acquisition cost might be adjusted if before April 30, 2005, if any material intentional misstatements are identified in the subsidiary's financial statements. The accompanying consolidated financial statements as of December 31, 2004 include accounts of TbilUniversalBank and its controlled subsidiary, Georgian Leasing Company.

Through acquisition of TbilUniversalBank in December 2004, the Bank obtained effective control over another subsidiary, Galt & Taggart Securities. As of December 31, 2004, the Bank had a 34% direct participation in the subsidiary, and also held 8% participation through TbilUniversalBank and 11% participation through a related party. Subsequent to year-end, the Group increased its participation in Galt & Taggart Securities to 75% for consideration of GEL 229, consisting of cash totalling GEL 68 and 34,516 common shares of the Bank valued at GEL 161.

In December 2004, the Bank acquired 88% of British Caucasian Insurance Company. The total purchase consideration was GEL 3,456, consisting of cash totalling GEL 2,878, and 101,627 common shares of the Bank valued at GEL 578. According to the combination agreement, the acquisition cost might be adjusted if before April 30, 2005 any material intentional misstatements are identified in the subsidiary's financial statements. Subsequent to year-end, the Group increased its ownership to 100% through acquisition of the remaining portion in British Caucasian Insurance Company for cash consideration of GEL 471.

(Thousands of Georgian Lari)

Goodwill on the 2004 transactions above comprised the following:

	TbilUniver-salBank	British Caucasian Insurance Company	Georgian Card	Total
Purchase consideration	11,253	3,456	1,010	15,719
Less – Fair value of net assets acquired	9,307	1,205	818	11,330
Goodwill at acquisition	**1,946**	**2,251**	**192**	**4,389**

Summary of Accounting Policies

Principles of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over its operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

(Thousands of Georgian Lari)

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Georgia (NBG) – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts Due from Credit Institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Investment Securities

The Group classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that Management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Group as held-to-maturity or trading are included in the available-for-sale portfolio.

The Group classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recognized in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in the income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Leases

(Thousands of Georgian Lari)

The Group entered into a number of operating leasing contracts as lessee. Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term and included in administrative and operating expenses.

Taxation

The current income tax charge is calculated in accordance with the regulations of Georgia. The principal tax rate was 20% in 2004 and 2003.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Georgia also has various operating taxes, that are assessed on the Group's activities. These taxes are included as a component of administrative and operating expenses.

Investments in Associates and Non-Consolidated Subsidiaries

Investments in associates (generally investments of between 20% to 50% in a company's equity) and investments in non-consolidated subsidiaries are carried at cost less any allowance for diminution in value as the financial effect of equity accounting or consolidation is immaterial to the Group as a whole.

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment

(Thousands of Georgian Lari)

subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Property and Equipment

Property and equipment are carried at historical cost or revalued amounts less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. An impairment is recognized in the respective period and is included in administrative and operating expenses.

Costs related to repairs and renewals are charged when incurred and included in administrative and operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets.

Goodwill relating to acquisitions from March 31, 2004 is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from 31 March 2004 is allocated to each of the cash-generating units expected to benefit from the combination’s synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the fair value of the Group’s share of the net assets acquired over the cost of acquisition. Negative goodwill relating to acquisitions from March 31, 2004 is recognised in the statement of income.

(Thousands of Georgian Lari)

Other Intangible Assets

The Group's other intangible assets comprise computer software. Computer software is recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of five years.

Amounts Due to the National Bank, Credit Institutions and to Customers

Amounts due to the National Bank, credit institutions and to customers are initially recognized in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

As of December 31, 2004, the Group did not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital and additional paid-in capital are recognized at cost. Where the Group or its subsidiaries purchases the Group's share capital, the consideration paid including any attributable transaction costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Treasury shares are stated at the par value, with adjustment of premiums against additional paid-in capital.

Dividends on ordinary shares are recognized as a reduction in shareholders' equity in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Commissions and other income are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans' effective yield. Non-interest expenses are recognized at the time the transaction occurs.

(Thousands of Georgian Lari)

3. Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differences).

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at December 31, 2004 and 2003, were 1.825 Lari and 2.075 Lari to 1 USD, respectively.

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2004	*2003*
Cash on hand	35,892	15,925
Current and deposit accounts with the National Bank	18,794	9,879
Current and deposit accounts with other credit institutions	48,061	17,822
Cash and cash equivalents	**102,747**	**43,626**

As of December 31, 2004, GEL 48,687 (2003 – GEL 14,350) was placed on current and deposit accounts with internationally recognized OECD banks, which are the main counter parties of the Group in performing international settlements. Of these amounts, GEL 3,665 (2003 – GEL 4,358) was pledged to a counterpart bank as security for open commitments.

5. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	2004	*2003*
Obligatory reserve with the National Bank	23,245	14,907
Loans to banks	2,387	1,235
	25,632	**16,142**
Less – Allowances for impairment	47	25
Amounts due from credit institutions	**25,585**	**16,117**

The obligatory reserve with the National Bank represents amounts deposited with the NBG relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is not restricted by legislation.

6. Investment Securities

Available-for-sale securities comprise:

	2004	*2003*
JSC "American Academy in Tbilisi"	103	103
JSC "Tbilisi Interbanking Currency Exchange"	40	40
Other	19	405
	162	**548**
Less – Allowance for diminution in value	103	103
Available-for-sale securities	**59**	**445**

(Thousands of Georgian Lari)

Available-for-sale investments are carried at cost, as these shares do not have a quoted market price and other methods of reasonably estimating fair value are not workable due to the absence of comparable quoted companies and the lack of reliable information for use in any valuation analysis. In management's opinion, the carrying value of the shares is realizable and approximates their fair value. As of December 31, 2004 and 2003, the Group's holding in these companies was less than 20%.

Held-to-maturity investment securities comprise treasury bills issued by the Ministry of Finance of Georgia. The securities are issued at a discount to face value and have maturity of four months. During 2004, average effective interest rate on these securities was approximately 16% (2003 – 42%) per annum.

7. Loans to Customers

Loans are made principally within Georgia and comprise:

	2004	***2003***
Trade & Services	60,931	47,481
Individuals	54,061	44,210
Mining	28,413	26,606
Legacy retail loans (pawn loans)	19,009	17,074
Construction	14,621	11,512
Transport & Communication	3,836	334
Agriculture	1,721	189
Energy	89	868
Other	6,268	2,768
	188,949	**151,042**
Less – Allowance for loan impairment	19,081	9,262
Loans to customers	**169,868**	**141,780**

During 2004, the Group's new management was unable to fully assess the source of repayment for certain loans due to lack of information on the respective borrowers. As of December 31, 2004, such loans comprise GEL 18,017. No contractual interest was accrued on those loans, and an allowance of GEL 11,623 was provided against these loans. In addition, during 2004 the Group's new management wrote off GEL 11,409, as they believe those loans were not collectible.

Loans are placed on non-accrual status as to contractual interest when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least thirty days). When a loan is placed on non-accrual status, contractual interest income is not recognized. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment. As of December 31, 2004, the amount of impaired loans, on which contractual interest was not accrued, was GEL 18,017 (2003 – GEL 6,746). Unrecognised interest related to such loans amounted to GEL 59 (2003 – GEL 600).

As of December 31, 2004, the Group's loans to the ten largest borrowers were GEL 23,586 (13% of gross loan portfolio) (2003 – GEL 38,533, 26%). An allowance of GEL 525 (2003 – GEL 1,281) was made against these loans.

(Thousands of Georgian Lari)

Loans have been extended to the following types of customers:

	2004	*2003*
Private companies	115,776	83,009
Individuals	73,084	61,284
State companies	36	6,685
State budget or local authorities	53	64
Loans to customers	**188,949**	**151,042**

8. Taxation

The corporate income tax expense comprises:

	2004	*2003*
Current tax charge	-	2,193
Current tax charge of prior period	428	-
Change in deferred tax assets (liabilities)	(1,354)	238
Deferred tax items – purchase accounting	145	-
Deferred tax charge (benefit)	**(1,209)**	**238**
Income tax expense (benefit)	**(781)**	**2,431**

Georgian legal entities must file individual tax declarations. The profit tax rate for banks is 20%. The tax rate for interest income on state securities is 10%.

Tax assets and liabilities consist of the following:

	2004	*2003*
Current tax assets	2,592	-
Deferred tax assets	815	-
Tax assets	**3,407**	**-**
Current tax liabilities	203	232
Deferred tax liabilities	-	539
Tax liabilities	**203**	**771**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2004	*2003*
(Loss) Income before tax	(8,130)	11,585
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(1,626)	2,317
State securities at lower rate	(330)	(446)
Non deductible expenditures:		
- losses on assets disposals	199	115
- impairment losses	60	70
- charity	29	64
- repairs	49	55
- legal	15	-
- other	395	256
Current tax charge of prior period	428	-
Income tax expense	**(781)**	**2,431**

As of December 31, 2004, the Group had tax loss carry forwards of GEL 8,770 that may be utilized during the next five years.

(Thousands of Georgian Lari)

Deferred tax assets and liabilities as of December 31 comprise:

	2004	*2003*
Tax effect of deductible temporary differences:		
Tax loss carry forward	1,754	-
Allowances for impairment and provisions for other losses	-	82
Property and equipment	145	15
Deferred tax asset	**1,899**	**97**
Tax effect of taxable temporary differences:		
Property and equipment	1,048	601
Allowances for impairment and provisions for other losses	36	-
Accrued income	-	35
Deferred tax liability	**1,084**	**636**
Net deferred tax assets (liability)	**815**	**(539)**

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), one turnover based tax, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, implementing regulations are often unclear or nonexistent and few precedents have been established. It creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

9. Investments in Associates and Non-Consolidated Subsidiaries

Investments in associates and non-consolidated subsidiaries comprise:

	Holding, %	*Country*	*Industry*	*2004*	*2003*
"Nautilius" LLC	47%	Georgia	Leisure	588	-
Other				-	604
Investments in associates and non-consolidated subsidiaries				**588**	**604**

Investment in associates and non-consolidated subsidiaries are carried at cost as the financial effect of equity accounting or consolidation is immaterial to the Group as a whole.

(Thousands of Georgian Lari)

10. Allowances for Losses and Provisions

The movements in allowances for impairment of interest earning assets, were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2002	**14**	**5,557**	**5,571**
Charge	11	4,094	4,105
Write-offs	-	(2,443)	(2,443)
Recoveries	-	2,054	2,054
December 31, 2003	**25**	**9,262**	**9,287**
Charge	22	20,489	20,511
Write-offs	-	(11,409)	(11,409)
Recoveries	-	739	739
December 31, 2004	**47**	**19,081**	**19,128**

The movements in allowances for other losses and provisions, were as follows:

	Available for sale securities	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2002	**103**	**600**	**142**	**845**
Charge	-	1,163	330	1,493
Write-offs	-	(555)	-	(555)
December 31, 2003	**103**	**1,208**	**472**	**1,783**
Charge	61	1,000	498	1,559
Write-offs	(61)	(978)	-	(1,039)
Recoveries	-	73	-	73
December 31, 2004	**103**	**1,303**	**970**	**2,376**

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with the Georgian legislation, loans must be written off if overdue more than 150 days.

(Thousands of Georgian Lari)

11. Property and Equipment

The movements of property and equipment, were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revaluation						
December 31, 2003	**13,233**	**5,971**	**3,848**	**1,049**	**636**	**24,737**
Acquisitions	1,763	1,507	765	45	-	4,080
Additions	2,529	943	1,997	332	497	6,298
Disposals	-	(10)	(131)	(61)	(129)	(331)
December 31, 2004	**17,525**	**8,411**	**6,479**	**1,365**	**1,004**	**34,784**
Accumulated impairment						
December 31, 2003 and 2004	**467**	**-**	**-**	**-**	**-**	**467**
Accumulated depreciation						
December 31, 2003	**104**	**1,513**	**2,077**	**429**	**123**	**4,246**
Charge for the year	216	684	757	207	115	1,979
Disposals	-	-	(119)	(61)	(32)	(212)
Accumulated deprecation of subsidiaries	69	386	568	116	6	1,145
December 31, 2004	**389**	**2,583**	**3,283**	**691**	**212**	**7,158**
Net book value						
December 31, 2003	**12,662**	**4,458**	**1,771**	**620**	**513**	**20,024**
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**27,159**

During 2003, the Group engaged an independent appraisal firm to opine on the fair market value of the Group's buildings. The resulting revaluation of GEL 1,257 is recorded, net of tax, in the revaluation reserve in shareholders' equity and impairment of GEL 467 was recognized in the income statement for the year ended December 31, 2003. The historical cost of land and buildings as of December 31, 2003 was GEL 9,988.

12. Intangible Assets

The movements of intangible assets were as follows:

	Computer software	*Goodwill*	*Total*
Cost			
December 31, 2003	**2,960**	**-**	**2,960**
Additions	1,617	4,389	6,006
December 31, 2004	**4,577**	**4,389**	**8,966**
Accumulated amortization			
December 31, 2003	**935**	**-**	**935**
Charge for the year	630	-	630
Accumulated amortization of subsidiaries	1,115	-	1,115
December 31, 2004	**2,680**	**-**	**2,680**
Net book value			
December 31, 2003	**2,025**	**-**	**2,025**
December 31, 2004	**1,897**	**4,389**	**6,286**

(Thousands of Georgian Lari)

13. Other Assets and Liabilities

Other assets comprise:

	2004	*2003*
Foreclosed assets	3,654	1,702
Settlements for operations with securities	840	695
Insurance premium receivable	1,727	-
Factoring operations	549	-
Lease receivable	869	-
Prepaid operating taxes	-	376
Settlements with clients	-	103
Other	491	2,150
	8,130	**5,026**
Less – Allowance for impairment of other assets	1,303	1,208
Other assets	**6,827**	**3,818**

Other liabilities comprise:

	2004	*2003*
Dividends payable	124	119
Amounts payable under combination agreements	2,644	-
Reserves for unearned premium	1,467	-
Claims reserves	188	-
Reinsurance accounts	825	-
Other	828	309
Other liabilities	**6,076**	**428**

Transit accounts are used for operations with travellers' cheques and payment cards.

As of December 31, 2004, the Group has an outstanding payable of GEL 2,644 according to the combination agreements with regard to the acquisition of certain subsidiaries.

14. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2004	*2003*
Current accounts	172	338
Time deposits and loans	23,568	22,951
Borrowings from international financial institutions	24,594	24,348
Amounts due to credit institutions	**48,334**	**47,637**

As of December 31, 2004 and 2003, borrowings from international financial institutions included borrowings from DEG, IFC, EBRD and BSTDB. The borrowings contain certain covenants establishing limits for capital adequacy, liquidity, currency position, credit exposures and others. As of December 31, 2004, the Group was not in compliance with certain covenants related to its borrowings from EBRD, BSTDB and DEG. Subsequent to year-end, negotiations between the Group and EBRD resulted in the covenants that were not complied with being cancelled. Also, the Group obtained a waiver from BSTDB regarding the event of non-compliance for the year ended December 31, 2004. The Group's management believes that the events of non-compliance related to its DEG borrowings will not lead to a claim for immediate or demand repayments of the GEL 4,450 borrowed as of December 31, 2004.

(Thousands of Georgian Lari)

15. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts and term deposits include the following:

	2004	*2003*
Current accounts	141,578	54,899
Time deposits	110,551	66,509
Amounts due to customers	**252,129**	**121,408**
Held as security against letters of credit	3,661	4,358
Held as security against letters of guarantees	1,240	539

At year-end, amounts due to customers of GEL 61,116 (25%) were due to the 10 largest customers (2003 - GEL 15,209 (13%)).

Amounts due to customers include accounts with the following types of customers:

	2004	*2003*
Individuals	114,218	69,560
Private enterprises	110,081	44,825
State and budgetary organisations	26,556	4,949
Employees	1,274	345
Other	-	1,729
Amounts due to customers	**252,129**	**121,408**

An analysis of customer accounts by sector follows:

	2004	*2003*
Individuals	115,491	69,560
Trade and services	28,270	19,322
Construction	10,954	7,031
Energy	11,845	3,860
Transport and communication	32,336	1,236
Mining	11,863	1,043
Agriculture	609	232
Other	40,761	19,124
Amounts due to customers	**252,129**	**121,408**

16. Provisions

Provisions by the Group as of December 31, 2004, comprise provisions for letters of credit and guarantees of GEL 970 (2003 – GEL 472).

17. Shareholders' Equity

As of December 31, 2004, share capital comprised 14,783,409 common shares, of which 11,273,386 were issued and fully paid (2003 – 10,000,000 common shares, of which 9,855,606 were issued and fully paid). Each share has a nominal value of one Lari. Shares issued and outstanding at December 31, 2004 comprise:

	Number of shares
December 31, 2003	**9,855,606**
Treasury shares purchased	(1,365,996)
Treasury shares sold	1,365,996
Issue of shares	1,417,780
December 31, 2004	**11,273,386**

(Thousands of Georgian Lari)

In August 2004, according to a Supervisory Board decision and NBG's permission the Group has purchased 1,365,996 shares from certain owners. Later in 2004, the Group sold those shares to new owners.

As of December 31, 2004, treasury shares of GEL 73 at par value and share premium of GEL 217 comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market for market-making and trading purposes.

In December 2004, the Group issued 1,417,780 shares in exchange for control of two subsidiaries (Note 2).

The share capital of the Group was contributed by the shareholders in Georgian Lari and US Dollars and they are entitled to dividends and capital distributions in Georgian Lari. As of December 31, 2004, net loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year were GEL 7,349 and 9,442,042, respectively (2003 – net income of GEL 9,154 and 9,855,606, respectively).

At the Shareholders' Meeting in March 2004, the Group declared dividends of GEL 2,500 in respect of 2003 (2002 – GEL 2,150).

18. Commitments and Contingencies

Operating Environment

Georgia continues to undergo substantial political, economic and social changes. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Furthermore, the Georgian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in Georgia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, onerous currency controls and low liquidity levels for debt and equity markets.

The Group could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and estimable.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

(Thousands of Georgian Lari)

Financial commitments and contingencies

As of December 31, the Group's financial commitments and contingencies comprised the following:

	2004	*2003*
Credit related commitments		
Undrawn loan commitments	8,783	9,091
Letters of credit	14,770	13,750
Guarantees	19,454	16,781
	43,007	**39,622**
Lease commitments		
Not later than 1 year	1,639	2,251
Later than 1 year but not later than 5 years	4,355	5,897
Later than 5 years	2,167	3,129
	8,161	**11,277**
Capital expenditure commitments	**2**	**600**
	51,170	**51,499**
Less – Secured by clients' funds	(4,901)	(4,897)
Less – Provisions	(970)	(472)
Financial commitments and contingencies	**45,299**	**46,130**

Insurance

The Group's premises are insured for GEL 10,910 (2003 – GEL 5,738). As of December 31, 2004, the Group has not obtained insurance coverage related to liabilities arising from errors or omissions. Subsequent to year-end, the Group obtained Bankers Blanket Bond insurance for the period of one year from March 18, 2005.

19. Salaries and Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2004	*2003*
Salaries and bonuses	10,118	7,012
Social security costs	3,140	2,048
Salaries and benefits	**13,258**	**9,060**
Occupancy and rent	2,160	2,145
Security	1,136	1,100
Repair and maintenance of property and equipment	1,064	791
Marketing and advertising	905	681
Operating taxes	785	908
Telephone and post	695	738
Office supplies	613	867
Expenses related to banking services	216	27
Insurance	187	164
Impairment of property	-	467
Business travel and related	147	185
Entertainment	107	123
Personnel training	90	105
Legal and consultancy	31	47
Penalties incurred	-	9

(Thousands of Georgian Lari)

Other	191	227
Administrative and operating expenses	**8,327**	**8,584**

20. Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Group's risk management policies in relation to those risks follows.

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by borrower and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Group obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

Concentration

The geographical concentration of Group's assets and liabilities is set out below:

	2004				***2003***			
	Georgia	***OECD***	***CIS and other foreign banks***	***Total***	***Georgia***	***OECD***	***CIS and other foreign banks***	***Total***
Assets:								
Cash and cash equivalents	52,684	48,687	1,376	102,747	28,454	14,350	822	43,626
Amounts due from credit institutions	25,585	-	-	25,585	16,117	-	-	16,117
Investment securities:								
- available-for-sale	59	-	-	59	445	-	-	445
- held-to-maturity	19,569	-	-	19,569	1,683	-	-	1,683
Loans to customers	169,868	-	-	169,868	141,780	-	-	141,780
All other assets	43,964	1,057	323	45,344	26,471	-	-	26,471
	311,729	**49,744**	**1,699**	**363,172**	**214,950**	**14,350**	**822**	**230,122**
Liabilities:								
Due to NBG and Government	-	-	-	-	4,765	-	-	4,765
Due to credit institutions	4,884	43,176	274	48,334	3,725	43,912	-	47,637
Due to customers	252,129	-	-	252,129	121,408	-	-	121,408
All other liabilities	6,466	615	168	7,249	1,671	-	-	1,671
Minority Interest	1,481	-	-	1,481	-	-	-	-
	264,960	**43,791**	**442**	**309,193**	**131,569**	**43,912**	**-**	**175,481**
Net balance sheet position	**46,769**	**5,953**	**1,257**	**53,979**	**83,381**	**(29,562)**	**822**	**54,641**

(Thousands of Georgian Lari)

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of NBG. The Group's exposure to foreign currency exchange rate risk follows:

	2004				*2003*			
	Lari	*Freely convertible*	*Non convertible*	*Total*	*Lari*	*Freely convertible*	*Non convertible*	*Total*
Assets:								
Cash and cash equivalents	30,947	71,554	246	102,747	15,053	27,905	668	43,626
Amounts due from credit institutions	23,245	2,340	-	25,585	14,907	1,210	-	16,117
Investment securities:								
- available-for-sale	59	-	-	59	445	-	-	445
- held-to-maturity	19,569	-	-	19,569	1,683	-	-	1,683
Loans to customers	20,155	149,713	-	169,868	22,132	119,648	-	141,780
All other assets	42,953	2,391	-	45,344	26,094	377	-	26,471
	136,928	**225,998**	**246**	**363,172**	**80,314**	**149,140**	**668**	**230,122**
Liabilities:								
Due to NBG and Government	-	-	-	-	1,211	3,554	-	4,765
Due to credit institutions	71	48,263	-	48,334	43	47,594	-	47,637
Due to customers	59,947	192,182	-	252,129	18,069	103,339	-	121,408
All other liabilities	5,935	1,314	-	7,249	1,424	247	-	1,671
Minority Interest	1,481	-	-	1,481	-	-	-	
	67,434	**241,759**	**-**	**309,193**	**20,747**	**154,734**	**-**	**175,481**
Net balance sheet position	**69,494**	**(15,761)**	**246**	**53,979**	**59,567**	**(5,594)**	**668**	**54,641**
Net off balance sheet position	**10,294**	**32,713**	**-**	**43,007**	**3,997**	**35,625**	**-**	**39,622**

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Georgia. The Group's principal cash flows, revenues and operating expenses are largely generated in Georgian Lari. As a result, future movements in the exchange rate between the Georgian Lari and USD will affect the carrying value of the Group's USD denominated monetary assets and liabilities.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee.

As of December 31, the effective average interest rates by currencies and comparative market rates for interest generating/ bearing monetary financial instruments were as follows:

(Thousands of Georgian Lari)

	2004		*2003*	
	GEL	***Foreign currencies***	***GEL***	***Foreign currencies***
Group rates				
Credit institutions	10%	2%	-	4%
Investment securities:				
- held-to-maturity	16%	-	42%	-
Loans to customers	24%	20%	24%	21%
Due to credit institutions		5%	-	5%
Deposits, generally for terms up to one year	5%	7%	5%	9%
Market rates				
Credit institutions	2%	2%	2%	1-15%
Loans to customers	24%	19%	25%	21%
Due to credit institutions	5%	7%	2%	5-15%
Deposits, generally for terms up to one year	5%	9%	5%	9%

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2004							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	58,670	44,077	-	-	-	-	-	102,747
Amounts due from credit institutions	23,245	-	2,340	-	-	-	-	25,585
Investment securities:								
- available-for-sale	-	-	-	-	-	59	-	59
- held-to-maturity	-	-	1,682	17,887	-	-	-	19,569
Loans to customers	-	21,269	13,282	31,799	85,710	16,322	1,486	169,868
	81,915	**65,346**	**17,304**	**49,686**	**85,710**	**16,381**	**1,486**	**317,828**
Liabilities:								
Due to credit institutions	-	3,086	9,520	10,230	16,373	9,125	-	48,334
Due to customers	158,920	10,810	26,860	44,303	9,881	1,355	-	252,129
	158,920	**13,896**	**36,380**	**54,533**	**26,254**	**10,480**	**-**	**300,463**
Net position	**(77,005)**	**51,450**	**(19,076)**	**(4,847)**	**59,456**	**5,901**	**1,486**	**17,365**
Accumulated gap	**(77,005)**	**(25,555)**	**(44,631)**	**(49,478)**	**9,978**	**15,879**	**17,365**	

(Thousands of Georgian Lari)

	2003							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	43,626	-	-	-	-	-	-	43,626
Amounts due from credit institutions	14,907	1,210	-	-	-	-	-	16,117
Investment securities:								
- available-for-sale	-	-	-	-	-	445	-	445
- held-to-maturity	-	761	922	-	-	-	-	1,683
Loans to customers	-	22,270	10,232	32,271	42,130	32,837	2,040	141,780
	58,533	**24,241**	**11,154**	**32,271**	**42,130**	**33,282**	**2,040**	**203,651**
Liabilities:								
Due to NBG and Government	4,765	-	-	-	-	-	-	4,765
Due to credit institutions	337	9,723	8,028	3,383	6,202	19,964	-	47,637
Due to customers	54,899	10,863	8,483	22,444	24,719	-	-	121,408
	60,001	**20,586**	**16,511**	**25,827**	**30,921**	**19,964**	**-**	**173,810**
Net position	**(1,468)**	**3,655**	**(5,357)**	**6,444**	**11,209**	**13,318**	**2,040**	**29,841**
Accumulated gap	**(1,468)**	**2,187**	**(3,170)**	**3,274**	**14,483**	**27,801**	**29,841**	

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. Long-term credits are generally not available in Georgia, except for programs established by international financial institution. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

As of December 31, 2004, the Group has a significant negative accumulated liquidity gap for the period up to one year from the balance sheet date.

The management of the Group has adopted the following action plan to improve the liquidity position of the Group:

- In March 2005, the Group achieved agreement with an international bank to borrow funds of USD 4.5 million (GEL 8,258) with maturity of five years;
- In April 2005, the Group achieved agreement with an international financial institution to borrow funds of USD 5.0 million (GEL 9,175) with maturity of seven years;
- In April 2005, an international financial institution provided the Group with a Funded Participation Facility of USD 5.0 million (GEL 9,175) with maturity of seven years;
- The Group also plans to attract additional long-term funding from international financial institutions and issuance of corporate bonds guaranteed by USAID;
- The Group plans to issue approximately one million new capital shares.

As of December 31, 2004, the Group's liquid assets, as determined by NBG rules, to total liabilities ratio was 47%. This exceeded the minimum ratio of 30% required by NBG regulations.

21. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Georgian Lari)

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Amounts Due from and to Credit Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Loans to Customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. As of December 31, 2004 and 2003, fair value of loans to customers approximates their carrying value.

Investment Securities

Held-to-maturity investment securities comprise securities with fixed interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

The fair value of available-for-sale investments approximates their carrying value.

Investments in Associates and Non-Consolidated Subsidiaries

Unlisted securities are stated at cost less any permanent diminution in value. The carrying amount of investments is a reasonable estimate of their fair value.

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As of December 31, 2004 and 2003, fair value of amounts due to customers approximates their carrying value.

22. Related Party Transactions

Related parties, as defined by IAS 24 “Related Party Disclosures”, are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
(b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group ;
(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of December 31, the Group had the following transactions with related parties:

(Thousands of Georgian Lari)

	2004			2003		
	Related party transactions	***Percent on normal conditions***	***Total category***	***Related party transactions***	***Percent on normal conditions***	***Total category***
Loans to customers, gross	7,810	100%	188,949	2,677	98%	151,042
Investments in associates and non-consolidated subsidiaries	588	100%	588	604	100%	604
Amounts due to credit institutions	25,308	100%	48,334	26,553	100%	47,637
Amounts due to customers	1,851	100%	252,129	-	-	-
Salaries and benefits	2,353	100%	13,258	812	100%	9,060

Key management personnel comprise members of Board of Directors and Supervisory Board of the Group, totalling ten persons as of December 31, 2004. Total compensation to key management personnel included in salaries and benefits in the statement of income is GEL 2,353 for the year ended December 31, 2004 (2003 – GEL 812).

Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

23. Capital Adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of December 31, 2004 and 2003, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2004 and 2003, was 19% and 28%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.