



Bank of Georgia Announces Preliminary Unconsolidated 2004 Results and Further Management Team Enhancements

JSC "Bank of Georgia" ("BoG"), a leading universal bank in Georgia, reports that it is well advanced with the cleanup of the loan portfolio inherited by the new management team. Since the arrival of the new management team in October 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 22.8 million for 2004. As a result, the Provisions/Total Loan Portfolio ratio increased from 6% at year end 2003 to 12% at year end 2004, making BoG one of the most conservatively provisioned bank in Georgia. Furthermore, NPL coverage ratio (Provisions/Total Adversely Classified Loans, including loans classified as Substandard, Doubtful and Loss) surged from 44% at the end of Q3 2004 to 90% at year end 2004. "I am pleased to report that, having nearly completed the process of reviewing the loan portfolio this management team has inherited, we have taken a conservative stance in order to ensure that the investor community has the full and accurate picture", stated **Lado Gurgenidze**, Chief Executive Officer.

BoG reported Total Income of GEL 39 million in 2004, or 6% higher than in 2003. "Healthy growth in Net Commission Income (GEL 8.8 million in 2004, y-o-y growth of 24.6%) and FX Trading Income (GEL 4.8 million, y-o-y growth of 25.3%) was offset by a slight decrease of 1.4% in Net Interest Income to GEL 23.9 million in 2004, against the background of Net Interest Margin decrease across the sector of up to 300 bps and strong appreciation of the Lari against the Dollar in 2004 (over 77% of BoG's earning assets are US\$-denominated)", commented **Lado Gurgenidze**.

Operating Costs increased by 22.8% y-o-y to GEL 23.9 million in 2004, primarily due to a one-off adjustment in salaries undertaken by the bank in early 2004 to make the bank's HR policies competitive. Normalized Net Operating Income (prior to Provisions and Restructuring & other non-recurring costs) decreased by 12.9% y-o-y to GEL 15.1 million. Due to the above-mentioned provision charges, BoG showed Net Loss of GEL 9.2 million in 2004.

Lado Gurgenidze commented, "given the management changes during 2004 and comprehensive restructuring process the new management team has embarked upon since October 2004, I believe that sequential quarterly analysis is currently the most instructive for the purposes of assessing the progress we have made.

As we have adopted highly conservative corporate lending policies, our corporate lending activity grew in Q4 2004 by only GEL 26.6 million, compared to GEL 37.9 million in Q3 2004. The new sector-focused corporate client coverage model we adopted in November is beginning to produce results, as we increasingly focus on fee and commission income while managing carefully our capital exposure.

In retail banking, our micro lending franchise continues to grow, with GEL 8.5 million worth of micro loans issued in Q4 2004, an 11% increase q-o-q. As we have built up the Consumer Lending sales force from seven lending officers at the end of September to 30 at year end, early results have exceeded our expectations, with consumer loans made in Q4 2004 increasing 43% q-o-q to GEL 2.6 million.

We remain a market leader in plastic cards, with 5,642 cards issued in Q4 2004, compared to 4,996 in Q3 2004. We have had some early successes in managing the headcount and other operating costs, having brought the headcount from 928 FTEs in October to 882 FTEs at year end 2004.

As a result of these and other improvements, our Normalized Net Operating Income leaped from GEL 1.2 million in October to GEL 1.9 million in November and was slightly above budget at GEL 1.4 million in December (which is usually a slow month due to the holiday season)".

Tbilisi, January 10, 2005

“Our liquidity has improved significantly in Q4 2004, as the current account balances and time deposits increased by GEL 38.8 million in Q4 2004, compared with a GEL 4 million increase in the previous quarter. While we have not consolidated TbilUniversalBank (“TUB”), BCI or Galt & Taggart yet, we remain the second-largest bank in Georgia by both equity and assets, which stood at year end 2004 at GEL 52.5 million and GEL 322.2 million, respectively”, stated **Irakli Gilauri**, Chief Financial Officer.

“I am also pleased to report that all of our subsidiaries – TUB, BCI and Galt & Taggart – have performed well in 2004. TUB’s Total Income grew 70% y-o-y in 2004 to GEL 5.6 million, with Net Income more than tripling to GEL 1.9 million. BCI is being integrated with our corporate & investment banking franchise, and a detailed plan to rollout the *bancassurance* strategy through our branch network is being put in place. Galt & Taggart exceeded all expectations in 2004, generating revenue of approximately GEL 450,000 and pre-tax income of approximately GEL 240,000, according to preliminary results”, added **Irakli Gilauri**.

“We are well on our way to completing the enhancement of our management team. Vasil Dzotsenidze, former CEO of TUB, has agreed to join BoG as Deputy CEO overseeing retail banking, replacing David Panjakidze. Sulkhan Gvalia, former Director and large shareholder of TUB, has agreed to join BoG as Deputy CEO overseeing the credit process and risk management. We are counting on Sulkhan for comprehensive credit process redesign which is being implemented. Tamuna Megrelishvili, former Head of Marketing at ProCreditBank and TUB, has joined as the new Head of Marketing. Nato Beridze, former Head of HR at TUB, has been asked to run HR for the entire group. I look forward to working closely with all of our colleagues, old and new alike, to ensure that 2005 is a successful year for BoG”, concluded **Lado Gurgenidze**.

About Bank of Georgia

Bank of Georgia is a leading Georgian universal bank, with an approximately 19.4 % market share in loans and 17.2 % market share in deposits. The bank markets and distributes a wide spectrum of retail products through its extensive branch network, and offers a full range of commercial & investment banking (through its affiliate, Galt & Taggart Securities) services and insurance services (through BCI, its wholly-owned insurance subsidiary) to corporate clients. As at December 31, 3004, the bank had GEL322.2 million in assets and GEL 52.5 million in equity.

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