TBC Bank

Financial statements
31 December 2001

Together with independent auditors' report

ANDERSEN

INDEPENDENT AUDITORS' REPORT

To the Shareholders of TBC Bank –

We have audited the accompanying balance sheet of TBC Bank (the "Bank") as of 31 December 2001, and the related profit and loss account and statements of shareholders' funds and cash flow for the year ended 31 December 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 financial statements referred to above give a true and fair view of the financial position of the Bank as of 31 December 2001, and of the result of its operations and its cash flows for the year ended 31 December 2001 in accordance with Statements of International Financial Reporting Standards, as published by the International Accounting Standards Board.

Arthur Andersen ZhAK

Almaty
Kazakhstan

18 February 2002

by: D.W. Gardner

29 March 2002

Profit and loss accounts
For the years ended 31 December 2001 and 2000
(thousands of Georgian Lari)

	Notes	2001	2000
Interest income		17,800	11,649
Interest expense		4,885	3,884
Net interest income	5	**12,915**	**7,765**
Provision for losses	6	3,644	2,542
Net interest income after provision for losses		**9,271**	**5,223**
Fees and commissions income, net	7	4,820	3,327
Foreign exchange gains, net		1,708	1,201
Other operating income		910	711
Non interest income		**7,438**	**5,239**
Losses from affiliated undertakings	**14**	**207**	**-**
Salaries and employment benefits	8	4,126	2,649
Administrative expenses	8	3,453	2,140
Depreciation and amortization	15, 16	573	550
Other provisions	6	1,164	422
Other operating expenses		928	539
Non interest expense		**10,244**	**6,300**
Profit before taxation		**6,258**	**4,162**
Taxation	9	1,760	498
Net profit		**4,498**	**3,664**

The accompanying notes are an integral part of these financial statements.

Balance sheets
31 December 2001 and 2000
(thousands of Georgian Lari)

	Notes	2001	2000
Assets			
Cash and due from National Bank	10	17,865	14,767
Due from credit institutions	11	15,444	14,058
Loans to customers	12	72,503	53,230
Tax assets	9	-	201
Investment securities:			
– available-for-sale	13	6,385	1,440
Investments in associates	14	336	96
Tangible fixed assets	15	4,533	3,028
Intangible assets	16	331	156
Other assets	17	1,423	706
Total assets		**118,820**	**87,682**
Liabilities			
Amounts owed to credit institutions	18	25,949	17,274
Amounts owed to customers	19	70,098	53,487
Tax liabilities	9	413	-
Provisions	6	259	55
Other liabilities	20	1,259	522
Total liabilities		**97,978**	**71,338**
Shareholders' funds			
Share capital	21	5,000	5,000
Share premium		2,298	2,298
Reserves		13,544	9,046
Total shareholders' funds		**20,842**	**16,344**
Total liabilities and shareholders' funds		**118,820**	**87,682**
Financial commitments and contingencies	**25**	**6,634**	**5,790**

Signed on behalf of the Board of Directors

Vakhtang Butskhrikidze General Director

Givi Lemonjava Deputy General Director

18 February 2002

The accompanying notes are an integral part of these financial statements.

Statements of shareholders' funds
For the years ended 31 December 2001 and 2000
(thousands of Georgian Lari)

	Share capital (nominal)	Share premium	Retained earnings	Shareholders' funds
31 December 1999	**3,000**	**474**	**7,089**	**10,563**
Shares issued	464		-	464
Share premium received	-	1,824		1,824
Reserves capitalized	1,536	-	(1,536)	-
Dividends paid			(171)	(171)
Net profit	-	-	3,664	3,664
31 December 2000	**5,000**	**2,298**	**9,046**	**16,344**
Net profit	-	-	4,498	4,498
31 December 2001	**5,000**	**2,298**	**13,544**	**20,842**

The accompanying notes are an integral part of these financial statements.

Cash flow statements
For the years ended 31 December 2001 and 2000
(thousands of Georgian Lari)

	Notes	2001	2000
Cash flows from operating activities			
Interest, fees and commissions received		23,759	15,408
Interest, fees and commissions paid		(5,217)	(4,316)
Dividends received		82	68
Foreign exchange gains		1,708	1,201
Receipts from other operating activities		826	767
Payments to employees		(3,389)	(2,649)
Payments for administrative expenses		(3,335)	(2,140)
Payments for other operating expenses		(928)	(539)
Cash flows from operating profits before changes in operating assets and liabilities		*13,506*	*7,800*
(Increase) decrease in operating assets			
Due from credit institutions		1,124	(48)
Loans to customers		(23,286)	(18,226)
Other assets		(903)	49
Increase (decrease) in operating liabilities			
Amounts owed to credit institutions		8,044	(6,749)
Amounts owed to customers		14,675	21,973
Other liabilities		(118)	564
Net cash flows from operating activities before profit taxes		*13,042*	*5,363*
Profit taxes paid		(1,146)	(577)
Net cash flows from operating activities		***11,896***	***4,786***
Cash flows from investing activities			
Investment securities purchased		(4,416)	-
Investment securities sold		-	510
Equity investments purchased		-	(76)
Tangible fixed assets purchased		(2,160)	(678)
Tangible fixed assets sold		181	136
Intangible assets purchased		(274)	-
Net cash flows from investing activities		***(6,669)***	***(108)***
Cash flows from financing activities			
Share capital issue		-	464
Share premium		-	1,824
Dividends paid		-	(171)
Net cash flows from financing activities		***-***	***2,117***
Effects of exchange rate changes on cash and cash equivalents		**99**	**18**
Change in cash and cash equivalents		**5,326**	**6,813**
Cash and cash equivalents, beginning of the year		**27,771**	**20,958**
Cash and cash equivalents, end of the year	22	**33,097**	**27,771**

The accompanying notes are an integral part of these financial statements.

Notes to financial statements
31 December 2001
(thousands of Georgian Lari)

NOTE 1 – PRINCIPAL ACTIVITIES

TBC Bank (the "Bank") was formed on 17 December 1992 as a joint stock company under the laws of Georgia. The Bank possesses general banking license №85 from the National Bank of Georgia (NBG), granted on 20 January 1993. The Bank accepts deposits from the public and makes loans, transfers payments in Georgia and abroad, exchanges currencies and provides banking services for its commercial and retail customers.

The Bank is among the three largest banks in Georgia in terms of assets calculated under the local accounting rules. Its main office is in Tbilisi and it has seven branches in Tbilisi, Rustavi, Kutaisi, Poti and Borjomi. The Bank's registered legal address is 11 Chavchavadze Ave. Tbilisi, Georgia, 380079.

As of 31 December 2001, three shareholders owned 50.94% of the outstanding shares.

The Bank had an average of 249 employees during the year (2000 – 172) and 288 employees at the end of 2001 (2000 – 177).

NOTE 2 – 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, low liquidity levels for debt and equity markets, and continuing high rates of inflation.

The Bank 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 Bank's assets, and the ability of the Bank 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 Bank's financial statements in the period when they become known and estimable.

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(in thousands of Georgian Lari)

NOTE 3 – BASIS OF PRESENTATION

a) General
The financial statements have been prepared in accordance with International Financial Reporting Standards and are presented in the thousands of Georgian Lari (KGEL), unless otherwise indicated.

b) Adoption of IFRS 39
As of 1 January 2001, the Bank adopted IFRS 39 "Financial instruments: Recognition and Measurement". Further information is disclosed in accounting policies for due from credit institutions, investment securities, loans to customers, amounts owed to credit institutions and to customers and in related notes.

Prior to adoption of IFRS 39, debt and equity securities, except for trading securities, were measured at historical cost, providing only for permanent value impairments. IFRS 39 has been applied prospectively in accordance with the requirements of this standard and therefore comparative information has not been restated.

c) Reclassifications
The following reclassifications have been made to 2000 balances to conform to the 2001 presentation.

Amount, KGEL	As reported	As reclassified
144	Investment securities	Investments in associates
82	Reserves	Retained earnings

NOTE 4 – PRINCIPAL ACCOUNTING POLICIES

a) Due from credit institutions
In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Such amounts are categorized as loans originated by the Bank and are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from credit institutions are the same as for loans to customers (see below).

b) Investments in associates
Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where a significant influence is exercised by the Bank are accounted for by using the equity method. When the investee incurs losses the Bank recognizes its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued.

c) Trading and Investment securities
After adoption of IFRS 39 at 1 January 2001 the Bank classified its securities into the following three categories:

- Securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit-taking exists are classified as trading securities,

- Securities with fixed maturities where Management has both the intent and the ability to hold to maturity are classified as held-to-maturity,

- Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

The classification of investments is determined by Management at the time of the purchase.

Securities are initially recognized at cost (including transaction costs), which is the fair value of the consideration given for them. Subsequently, trading and investment securities are measured as follows:

- Trading securities are subsequently measured at fair value based on quoted bid prices. Related realized and unrealized gains and losses are included in Dealing profit.

- Available-for-sale investment securities are subsequently measured at fair value based on quoted bid prices or present value of future cash flows. Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as revaluation reserve in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the profit and loss account.

  Unquoted equity investments are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie. The Bank's equity investments include investments in certain non-consolidated subsidiaries and certain associates, which are also carried at cost. The reasons for not consolidating and not accounting under the equity method of these investments are disclosed in Note 13.

- Held to maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment. The amount of impairment loss is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the instruments original effective interest rate.

Interest earned while holding trading and investment securities is reported as interest income. Dividends receivable are included in Dividend income when a dividend is declared.

Purchases and sales of securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at trade date, which is the date that the Bank commits to purchase or sale the asset. Otherwise, such transactions are treated as derivatives until settlement occurs.

d) Loans to customers

Loans granted by the Bank by providing money directly to the borrower are categorized as loans originated by the Bank and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loans and advances are recognized when cash is advanced to borrowers.

A credit risk reserve for loan impairment is established if there is objective evidence that the Bank will not be able to collect amounts due. The amount of the reserve is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The loan loss reserve also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and consider the current economic conditions in which the borrowers operate. When a loan is deemed uncollectable, it is written off against the related reserve for impairment; subsequent recoveries are credited to the reserve for loan losses.

Provisions for losses in the profit and loss accounts represent the charge required in the current year to establish total reserves for losses in accordance with IFRS.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of reserves is credited to the provision for loan losses in the profit and loss account.

e) Maturity of loans

The maturity of the loan portfolio is presented in Note 23 and shows the remaining period from the balance sheet date to the contractual maturity. Long-term credits and overdraft facilities are generally not available in Georgia except for programs established by international financial institutions. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by the classification based on contractual terms.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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.

g) Tangible fixed assets

Fixed assets are recorded at historical cost less accumulated depreciation. Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	30
Furniture and equipment	5-8
Vehicles	4-5
Computers and communication equipment	3-5
Leasehold improvements	Contractual maturity, less than or equal to 10 years
Other	2-8

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service.

Repairs and maintenance are charged to the profit and loss account.

h) Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are 1-6 years.

Intangible assets under development are not depreciated. Amortization of these assets will begin when the related assets are placed in service. Intangible assets mostly comprise of software.

i) Operating leases

The Bank enters into operating lease agreements as a lessee. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

j) Amounts owed to credit institutions and to customers

Amounts owed to credit institutions and to customers are initially recognized at cost, which amounts to the initiation/issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective yield method. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

k) Dividends and treasury stock

Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date are treated as a subsequent event under IFRS 10 “Events after the balance sheet date”.

Where the Bank purchases the Bank’s share capital or obtains rights to purchase its share capital, the consideration paid is shown as a deduction from total shareholders’ equity.

l) Provisions

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

m)Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Georgian Lari at official NBG rates of exchange at the balance sheet date. Transactions denominated in foreign currencies are reported at the NBG rates of exchange at the date of the transaction. Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in foreign exchange gain or loss. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rates are recognized as translation gains or losses.

A majority of the 2001 balance sheet consists of monetary items, some of which are denominated in freely convertible currencies. The Lari to US dollar exchange rate has declined by approximately 4% during 2001 from 1.975 to 2.06 (2% during 2000 from 1.93 to 1.975). See Note 23 for a summary of assets and liabilities denominated in freely convertible currencies.

n) Income and expense recognition

Interest income and expense are recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

o) Taxation

The taxation charge is calculated in accordance with the regulations of Georgia and is based on the results reported in the profit and loss accounts of the Bank prepared under IFRS after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Georgia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of Non-interest expense.

p) Cash flows

The Bank considers cash, current account with the NBG and due from credit institutions with maturity of three months or less when originated to be cash equivalents.

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(in thousands of Georgian Lari)

NOTE 5 – NET INTEREST INCOME

Net interest income comprises:

	2001	2000
Interest income		
Loans to customers	16,769	10,503
Due from credit institutions	1,016	1,146
Debt securities	15	-
	17,800	**11,649**
Interest expense		
Amounts owed to customers	3,243	2,056
Amounts owed to credit institutions	1,642	1,828
	4,885	**3,884**
Net interest income	**12,915**	**7,765**

NOTE 6 – RESERVES FOR LOSSES

The movement in the reserves for interest earning assets during 2001 and 2000 was:

	Loans to banks	Loans to customers	Total reserves
31 December 1999	**-**	**2,390**	**2,390**
Provisions charged to profit	35	2,507	2,542
Recoveries	-	1,468	1,468
Write off of assets	-	(2,513)	(2,513)
31 December 2000	**35**	**3,852**	**3,887**
Provisions charged to profit	47	3,597	3,644
Recoveries	-	1,425	1,425
Write off of assets	-	(4,615)	(4,615)
31 December 2001	**82**	**4,259**	**4,341**

The movement in the reserves for other assets and off-balance sheet risks during 2001 and 2000 was:

	Trading securities	Investments in associates	Investment securities	Other assets	Other risks	Total reserves
31 December 1999	**-**	**48**	**-**	**-**	**51**	**99**
Provisions charged to profit	386	-	-	32	4	422
Write off of assets	(386)	-	-	-	-	(386)
31 December 2000	**-**	**48**	**-**	**32**	**55**	**135**
Provisions charged to profit	-	24	750	186	204	1,164
Write off of assets	-	(7)	-	(2)	-	(9)
31 December 2001	**-**	**65**	**750**	**216**	**259**	**1,290**

Reserves for losses are deducted from the related asset. Reserves for off-balance and other risks are recorded in liabilities.

(in thousands of Georgian Lari)

NOTE 7 – FEES AND COMMISSIONS INCOME, NET

Fees and commissions received comprise:

	2001	2000
Conversion operations	1,540	975
Cash operations	1,506	1,188
Settlements operations	1,101	730
Guarantees and letters of credit issued	381	358
Other	883	508
Fees and commissions received	**5,411**	**3,759**

Fees and commissions paid comprise:

	2001	2000
Settlements operations	231	128
Cash operations	192	126
Conversion operations	57	37
Guarantees and letters of credit received	28	120
Other	83	21
Fees and commissions paid	**591**	**432**
Fees and commissions income, net	**4,820**	**3,327**

NOTE 8 – SALARIES AND ADMINISTRATIVE EXPENSES

Salaries and administrative expenses comprise:

	2001	2000
Salaries and other benefits	3,141	2,022
Social security costs	985	627
Salaries	**4,126**	**2,649**
Communication and supplies	818	395
Occupancy	723	496
Business development	698	355
Professional services	545	601
Operating taxes	372	192
Other	297	101
Administrative expenses	**3,453**	**2,140**

The Bank does not have pension arrangements separate from the State pension system of Georgia. The Georgian system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the profit and loss account in the period the related compensation is earned by the employee.

(in thousands of Georgian Lari)

NOTE 9 – TAXATION

The provision for profit taxes comprises:

	2001	2000
Current tax charge	1,559	577
Deferred taxation	201	(79)
Taxation	**1,760**	**498**

Georgian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. The tax rate for banks for profits was 20% in 2001 (2000 - 10%, as a result of concession due to foreign investment in the Bank).

The effective profit tax rate differs from the statutory profit tax rates. A reconciliation of the profit tax provision based on statutory rates with the actual profit tax provision follows.

	2001	2000
Profit before taxation	**6,258**	**4,162**
Statutory tax rate	20%	10%
Theoretical profit tax charge at statutory rate	**1,252**	**416**
Non-deductible expenditures	318	24
Change in unrecognized deferred tax asset	(195)	195
Provision for impairment of other real estate owned	184	-
Staff bonuses	115	-
Effect of change in taxation rate	53	-
Withholding and other tax provisions	41	-
Other permanent differences	-	(130)
Non-taxable income	(8)	(7)
Profit tax provision	**1,760**	**498**

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(in thousands of Georgian Lari)

As at 31 December 2000 the Bank's net deferred profit tax assets comprised 201 KGEL. Deferred tax assets are the amounts of profit taxes recoverable in future periods in respect of deductible temporary differences.

	2001	2000
Tax effect of deductible temporary differences		
Provision for losses	-	316
Accrued liabilities	12	193
Depreciation	(12)	20
Gross deferred tax asset	**-**	**529**
Unrecognized deferred tax asset	-	(195)
Deferred tax asset	**-**	**334**
Tax effect of taxable temporary differences		
Interest accrued	-	(133)
Deferred tax liability	**-**	**(133)**
Net deferred tax asset	**-**	**201**

Tax liabilities comprise of 413 KGEL current tax liabilities as of 31 December 2001 (2000 - nil).

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 Bank is in substantial compliance with the tax laws affecting its operations. The local tax inspectorate has checked the Bank's 2001 operations in 2002 and has not found any violations of the tax code or any other applicable laws. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

NOTE 10 – CASH AND DUE FROM NATIONAL BANK

Cash and due from National Bank comprise:

	2001	2000
Cash on hand	5,649	5,048
Current accounts with NBG	1,345	2,082
Reserve with NBG	10,871	7,637
Cash and due from National Bank	**17,865**	**14,767**

The National Bank of Georgia requires credit institutions to maintain cash deposit (reserve) with the NBG, the amount of which depends on the level of deposits attracted by the credit institution. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation.

Reserve calculated on the basis of NBG requirements as of 31 December 2001 comprised 9,927 KGEL. Reserve maintained by the Bank as of 31 December 2001 exceeded required level by 944 KGEL.

(in thousands of Georgian Lari)

NOTE 11 – DUE FROM CREDIT INSTITUTIONS

Due from credit institutions comprise:

	2001	2000
Current accounts	15,526	13,556
Time deposits	-	537
	15,526	**14,093**
Less – Reserves for losses	(82)	(35)
Due from credit institutions, net	**15,444**	**14,058**

Due from credit institutions include 294 KGEL, which are blocked under Letters of Credit and Guarantees (2000 – 1,089 KGEL).

The Bank provides reserve for possible losses on the placements with banks in non-OECD countries to be equal to 2% of the value of such placements as of the balance sheet date.

In accordance with the requirements of IFRS 32, the Bank estimated fair value of these assets at 15,526 KGEL as at 31 December 2001 (2000 – 14,045 KGEL). The estimate was made using the following methods and assumptions:

- For the assets maturing within one month, the carrying amount is a reasonable estimate of fair value.
- For the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates.

NOTE 12 – LOANS TO CUSTOMERS

Loans to customers are made principally within Georgia and comprise:

	2001	2000
Trading enterprises	24,129	18,079
Consumer	12,536	10,073
Manufacturing	14,346	11,718
Services	7,802	8,332
Communications and transportation	6,557	-
Power industry	3,573	-
Real estate and construction	1,175	1,097
Other	6,644	7,783
	76,762	**57,082**
Less – Reserves for loan losses	(4,259)	(3,852)
Loans to customers, net	**72,503**	**53,230**

In accordance with the requirements of IFRS 32, the Bank estimated fair value of these assets at 72,701 KGEL as at 31 December 2001 (2000 – 53,982 KGEL). The estimate was made by discounting scheduled cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

The Bank accepted listed and unlisted securities and other property as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default.

(in thousands of Georgian Lari)

The Bank's loan portfolio has been extended to the following types of enterprises:

	2001	2000
Private companies	64,226	47,009
Individuals	12,536	10,073
Loans to customers	**76,762**	**57,082**

NOTE 13 – AVAILABLE-FOR-SALE SECURITIES

Available-for-sale equity instruments consist of the following investments stated at cost:

	2001	2000
Associates carried at cost	2,520	13
Other equity investments	4,615	1,427
	7,135	**1,440**
Less – Reserves for impairment	(750)	-
Equity instruments	**6,385**	**1,440**

As at 31 December 2001, the Bank has investments in the following non-consolidated subsidiaries, associates not accounted for under the equity method and other investments available for sale.

Name	Bank holding %	Total shareholders' funds of investee	Carrying value of investment	Principal activity	Country
TBC Broker LLC	100%	20	20	Corporate finance	Georgia
JSC Centralury Univermagi	92%	690	2,500	Retail	Georgia
JSC Bank of Georgia (unaudited)	11%	37,176	2,801	Banking	Georgia
JSC Microfinance Bank of Georgia (unaudited)	17%	22,704	1,693	Banking	Georgia
Other			121		Georgia
			7,135		

For associates accounted for under the equity method see Note 14.

The investments in non-consolidated subsidiaries and certain investments in associates disclosed above are accounted for using the cost method. The financial results of these subsidiaries and associates represent the amounts reported in their unaudited statutory financial statements as at the most recent year-end on or before 31 December 2001. The investment in TBC Broker LLC has not been consolidated with the results of the Bank as the effect would not materially alter the financial position of the Bank as at 31 December 2001 or the results of its operations or cash flows of the Bank for the year then ended.

The investment in JSC Centralury Univermagi has not been consolidated with the results of the Bank as the control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future.

The equity instruments disclosed above (including non-consolidated subsidiaries and associates not accounted for under the equity method) are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently not possible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

(in thousands of Georgian Lari)

NOTE 14 – INVESTMENTS IN ASSOCIATES

Investments in associates accounted for under the equity method comprise:

31 December 2000 and 1999	**144**
Additions	471
Share of loss of associates	(207)
Write-offs	(7)
31 December 2001	**401**
Reserve for impairment	
31 December 2000 and 1999	**48**
Charge for the year	24
Write-offs	(7)
31 December 2001	**65**
Net value	
31 December 2000	96
31 December 2001	**336**

As at 31 December 2001, the Bank has following equity investments in associates accounted for under equity method:

Name	**Bank holding %**	**Total shareholders' funds of investee**	**Carrying value of investment**	**Principal activity**	**Country**
JSC United Financial Corporation	35%	560	196	Plastic cards processing	Georgia
JSC Georgian Pensions and Insurance Holding	20%	550	110	Pensions and insurance	Georgia
UFC International Limited	20%	475	95	Plastic cards processing	Virgin Islands
		1,260	**401**		

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(in thousands of Georgian Lari)

NOTE 15 – TANGIBLE FIXED ASSETS

The movements of tangible fixed assets during 2001 and 2000 were as follows:

	Land and buildings	Fixtures and equipment	Assets under construction	Total
Cost of acquisition				
31 December 1999	**2,438**	**1,064**	**35**	**3,537**
Additions	73	470	135	678
Disposals	(35)	(106)	-	(141)
31 December 2000	**2,476**	**1,428**	**170**	**4,074**
Additions	496	986	678	2,160
Disposals / transfers	-	(39)	(170)	(209)
31 December 2001	**2,972**	**2,375**	**678**	**6,025**
Accumulated depreciation				
31 December 1999	**195**	**362**	**-**	**557**
Charge for the year	236	258	-	494
Disposals	-	(5)	-	(5)
31 December 2000	**431**	**615**	**-**	**1,046**
Charge for the year	112	362	-	474
Disposals	-	(28)	-	(28)
31 December 2001	**543**	**949**	**-**	**1,492**
Net book value				
31 December 2000	2,045	813	170	3,028
31 December 2001	**2,429**	**1,426**	**678**	**4,533**

In 2000 an administrative building of the Bank in Poti suffered substantial damage. Under an accelerated method for depreciation, 144 KGEL (73% of the total cost of the building) was recorded as an additional depreciation charge for the year.

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(in thousands of Georgian Lari)

NOTE 16 – INTANGIBLE ASSETS

The movements of intangible assets during 2001 and 2000 were as follows:

	Other intangible assets
Cost of acquisition	
31 December 1999	**138**
Additions	100
Disposals	(2)
31 December 2000	**236**
Additions	274
31 December 2001	**510**
Amortization	
31 December 1999	**24**
Charge for the year	56
Disposals	**-**
31 December 2000	**80**
Charge for the year	99
31 December 2001	**179**
Book values	
31 December 2000	156
31 December 2001	**331**

NOTE 17 – OTHER ASSETS

Other assets comprise:

	2001	2000
Other real estate and assets owned	532	32
Prepaid operating taxes	353	432
Prepayments	276	-
Trade debtors	247	-
Other	231	274
	1,639	**738**
Less – Reserve for impairment	(216)	(32)
Other assets	**1,423**	**706**

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(in thousands of Georgian Lari)

NOTE 18 – AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions comprise:

	2001	2000
Borrowings from international credit institutions	15,221	17,071
Time deposits from other banks	10,237	-
Current accounts	491	203
Amounts owed to credit institutions	**25,949**	**17,274**

In accordance with the requirements of IFRS 32, the Bank estimated fair value of these liabilities at 32,736 KGEL as at 31 December 2001 (2000 – 19,233 KGEL). The estimate was made using the same methods and assumptions as for amounts due from credit institutions (see Note 11).

At 31 December 2001 loans from other banks include 15,221 KGEL (2000 – 16,440 KGEL) borrowings from DEG, Shore Bank, World Bank, IFC and EBRD.

NOTE 19 – AMOUNTS OWED TO CUSTOMERS

Amounts owed to customers comprise:

	2001	2000
Current accounts	25,572	24,121
Time deposits and saving accounts	44,526	29,366
Amounts owed to customers	**70,098**	**53,487**

In accordance with the requirements of IFRS 32, the Bank estimated fair value of these liabilities at 69,575 KGEL as at 31 December 2001 (2000 – 52,892 KGEL). The estimate was made using the following methods and assumptions:

- For liabilities maturing within one month, the carrying amount is a reasonable estimate of fair value.
- For the liabilities maturing in over one month the fair value represents the present value of estimated future cash flows discounted at the average year end market rates for each type of instrument.

NOTE 20 – OTHER LIABILITIES

Other liabilities comprise:

	2001	2000
Accrued expenses	855	231
Sundry creditors	207	-
Operating taxes payable	125	-
Other	72	291
Other liabilities	**1,259**	**522**

Accrued expenses include 647 KGEL employees' bonuses for 2001 disbursable in 2002.

(in thousands of Georgian Lari)

NOTE 21 – SHARE CAPITAL

The share capital of the Bank has been contributed by shareholders in both Georgian Lari and foreign currencies and fixed assets. Shareholders are entitled to dividends and capital distributions in Georgian Lari. As at 31 December 2001 and 2000, shares issued and outstanding comprise:

	Common shares	
	Number of shares	KGEL
31 December 1999	**30,000**	**3,000**
Contributed in foreign currencies	4,640	464
Reserve capitalized	15,360	1,536
31 December 2000 and 2001	**50,000**	**5,000**

NOTE 22 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2001 and 2000 as shown in the cash flow statement comprised:

	2001	2000
Cash and current account with NBG	17,865	14,767
Due from credit institutions:		
– Current accounts	15,232	12,467
– Time deposits with maturity less than three months	-	537
Cash and cash equivalents	**33,097**	**27,771**

NOTE 23 – RISK MANAGEMENT POLICIES

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank 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, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

(in thousands of Georgian Lari)

With respect to undrawn loan commitments the Bank is potentially exposed to the credit risk equal to the total amount of such commitments.

The geographical concentration of monetary assets and liabilities follows.

	2001				**2000**			
	Georgia	**OECD**	**Other non-OECD**	**Total**	**Georgia**	**OECD**	**Other non-OECD**	**Total**
Assets								
Cash and due from NBG	17,865	-	-	17,865	14,767	-	-	14,767
Credit institutions, net	1,412	10,965	3,067	15,444	1,648	11,906	504	14,058
Loans to customers, net	72,503	-	-	72,503	53,230	-	-	53,230
Investment securities, net	6,385	-	-	6,385	-	1,440	-	1,440
	98,165	**10,965**	**3,067**	**112,197**	**69,645**	**13,346**	**504**	**83,495**
Liabilities								
Credit institutions	1,788	24,151	10	25,949	199	17,075	-	17,274
Customers	64,178	-	5,920	70,098	48,472	-	5,015	53,487
	65,966	**24,151**	**5,930**	**96,047**	**48,671**	**17,075**	**5,015**	**70,761**
Net position	**32,199**	**(13,186)**	**(2,863)**	**16,150**	**20,974**	**(3,729)**	**(4,511)**	**12,734**

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(in thousands of Georgian Lari)

Currency risk

The Bank 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 US Dollar), by branches and in total. These limits also comply with the minimum requirements of NBG. The Bank's exposure to foreign currency exchange rate risk follows.

	2001			**2000**		
	Georgian Lari	**Foreign currencies**	**Total**	**Georgian Lari**	**Foreign currencies**	**Total**
Assets						
Cash and due from NBG	14,500	3,365	17,865	11,803	2,964	14,767
Credit institutions, net	144	15,300	15,444	-	14,058	14,058
Loans to customers, net	233	72,270	72,503	515	52,715	53,230
Investment securities, net	6,385	-	6,385	1,440	-	1,440
All other assets	6,605	18	6,623	4,187	-	4,187
	27,867	**90,953**	**118,820**	**17,945**	**69,737**	**87,682**
Liabilities						
Credit institutions	325	25,624	25,949	2	17,272	17,274
Customers	7,017	63,081	70,098	5,830	47,657	53,487
All other liabilities	1,597	334	1,931	577	-	577
	8,939	**89,039**	**97,978**	**6,409**	**64,929**	**71,338**
Net balance sheet position	**18,928**	**1,914**	**20,842**	**11,536**	**4,808**	**16,344**

The Bank has extended loans and advances denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against Georgian Lari can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from, current deposits, maturing deposits, loan drawdowns, and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor cash flow obligations as they become due. The Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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(in thousands of Georgian Lari)

The actual maturities of monetary assets and liabilities as at 31 December 2001 and 2000 follow.

2001

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue	Total
Assets								
Cash and due from NBG	6,994	10,871	-	-	-	-	-	17,865
Credit institutions, net	15,192	24	228	-	-	-	-	15,444
Loans to customers, net	-	24,969	8,418	24,121	14,623	14	358	72,503
Investment securities, net	-	-	-	-	-	6,385	-	6,385
	22,186	**35,864**	**8,646**	**24,121**	**14,623**	**6,399**	**358**	**112,197**
Liabilities								
Credit institutions	490	10,936	733	4,192	9,130	468	-	25,949
Customers	44,336	4,767	8,039	11,874	1,071	11	-	70,098
	44,826	**15,703**	**8,772**	**16,066**	**10,201**	**479**	**-**	**96,047**
Net position	**(22,640)**	**20,161**	**(126)**	**8,055**	**4,422**	**5,920**	**358**	**16,150**
Accumulated gap	***(22,640)***	***(2,479)***	***(2,605)***	***5,450***	***9,872***	***15,792***	***16,150***	

2000

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue	Total
Assets								
Cash and due from NBG	7,130	7,637	-	-	-	-	-	14,767
Credit institutions, net	13,528	530	-	-	-	-	-	14,058
Loans to customers, net	-	9,464	11,936	15,056	14,967	-	1,807	53,230
Investment securities, net	-	-	-	-	-	1,440	-	1,440
	20,658	**17,631**	**11,936**	**15,056**	**14,967**	**1,440**	**1,807**	**83,495**
Liabilities								**-**
Credit institutions	189	857	-	2,792	9,667	3,769	-	17,274
Customers	33,693	2,717	7,369	9,490	218	-	-	53,487
	33,882	**3,574**	**7,369**	**12,282**	**9,885**	**3,769**	**-**	**70,761**
Net position	**(13,224)**	**14,057**	**4,567**	**2,774**	**5,082**	**(2,329)**	**1,807**	**12,734**
Accumulated gap	***(13,224)***	***833***	***5,400***	***8,174***	***13,256***	***10,927***	***12,734***	

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are summarized in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at 31 December 2001 and 2000 for monetary financial instruments follow.

(in thousands of Georgian Lari)

	2001			2000		
	Georgian Lari	**US Dollars**	**Other foreign currencies**	**Georgian**	**US Dollars**	**Other foreign currencies**
Interest earning assets						
Credit institutions	4.50%	3.10%	4.14%	5.60%	5.00%	-
Loans to customers	30.15%	23.06%	-	24.00%	26.80%	30.00%
Interest bearing liabilities						
Credit institutions	-	7.95%	8.30%	-	10.30%	9.50%
Customers	7.70%	9.10%	7.80%	7.00%	9.10%	12.50%

NOTE 24 – RELATED PARTIES

Related parties, as defined by IFRS 24, are those counterparties 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 Bank 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 Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank 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 Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As at 31 December 2001, the Bank had 1,375 KGEL (2000 – 1,446 KGEL) of transactions outstanding with related parties.

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(in thousands of Georgian Lari)

These transactions comprise:

	2001			2000
	Related party transactions	**Percentage on normal conditions**	**Total asset or liability category, gross**	**Related party transactions**
Loans to customers, gross	1,129	100%	76,762	1,446
Amounts due to customers	122	100%	70,098	-
Professional services	392	-	545	-
Other provision	181	-	204	-
Commitments and guarantees given	124	100%	6,582	-

Loans to customers consist of 803 KGEL loans to private enterprises and 326 KGEL to individuals.

The percentages indicated above represent the percentages of related parties transactions that have been entered into under normal commercial and banking terms and conditions.

As at 31 December 2001, members of the Supervisory Board owned 30,420 shares – 60.84% (32,920 shares – 65.84% in 2000) of the Bank.

Also as at 31 December 2001, members of the Supervisory Board and Management Boards had 283 KGEL (2000 – 1,082 KGEL) of loans due to the Bank.

NOTE 25 – FINANCIAL COMMITMENTS AND CONTINGENCIES

a) *Credit related financial commitments*

The credit related financial commitments as at 31 December 2001 and 2000 comprise:

	2001	2000
Guarantees	2,850	2,750
Undrawn loan commitments	2,159	2,096
Letters of credit	570	389

In the normal course of business, the Bank makes commitments to grant loans at a specified rate of interest during a fixed period of time. Some of the Bank's loan contracts contain contingent clauses that set out certain future conditions under which the unused portion of the loan can be drawn by the borrower. As at 31 December 2001 such undrawn loan commitments amounted to 2,850 KGEL (2000 – 2,750 KGEL) and were held off the Bank's balance sheet under the provisions of IFRS 37 "Provisions, Contingent Liabilities and Contingent Assets".

The Bank's Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of 52 KGEL was necessary as at 31 December 2001 (2000 – 55 KGEL).

(in thousands of Georgian Lari)

b) *Operating lease obligations*

In the normal course of business, the Bank enters into operating lease agreements. Future minimum payments under non-cancelable operating leases are as follows:

	2001	**2000**
Not later than 1 year	167	93
Later than 1 year and not later than 5 years	495	281
Later than 5 years	393	181
	1,055	**555**

c) *Legal*

In the ordinary course of business, the Bank 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 Bank.

NOTE 25 – CAPITAL ADEQUACY

The National Bank of Georgia requires banks to maintain a capital adequacy ratio of 15% (15% for 2000) of risk weighted assets. As at 31 December 2001 and 2000, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2001 and 2000 was 22% and 25% respectively, which exceed the minimum ratio of 8% recommended by the Basle Accord.

The ratio is calculated in accordance with the rules set forth by the Basle Accord, using the following risk weightings:

Weighting	**Description of items**
0%	Cash, amounts with NBG and claims on the Government of Georgia denominated in Georgian Lari and funded in Georgian Lari
20%	Due from OECD credit institutions
20%	Due from non-OECD credit institutions maturing within one year
100%	Loans to customers
100%	All other assets
	Off-balance sheet items
0%	Undrawn loan commitments maturing within one year
20%	Guarantees issued in favor of OECD credit institutions
50%	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100%	All other guarantees issued
1% - 5%	Foreign exchange contracts
0% - 0.5%	Interest rate contracts

Capital is calculated as the total of restricted and unrestricted components of equity, plus the Bank's general reserves for loans losses, to the extent that these general reserves for loan losses do not exceed 1.25% of risk weighted assets.

(end)