TBC Bank
Financial Statements

Years ended December 31, 2003 and 2002
Together with Report of Independent Auditors

CONTENTS

ERNST & YOUNG

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

შ.პ.ს. ერნსტ ენდ იანგ აუდიტი
საქართველო, 0105 თბილისი
ლესელიძის ქუჩა, 44
ტელ: 995 (32) 75-1064
ფაქსი: 995 (32) 75-1066

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of TBC Bank –

We have audited the accompanying balance sheet of TBC Bank (the "Bank") as of December 31, 2003, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. 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 present fairly, in all material respects, the financial position of the Bank as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 22, 2004

Ernst & Young Audit LLC

BALANCE SHEETS

(Thousands of Georgian Lari)

	Notes	*December 31,* 2003	2002
Assets			
Cash and cash equivalents	4	58,181	44,677
Amounts due from credit institutions	5	33,180	24,859
Investment securities:	6		
- available-for-sale		2,922	2,922
- held-to-maturity		6,882	3,643
Loans to customers	7	146,480	101,166
Deferred tax assets	8	635	33
Investments in associates and non-consolidated subsidiaries	9	987	695
Property and equipment	11	10,588	8,408
Intangible assets	12	169	344
Other assets	13	1,550	1,321
Total assets		**261,574**	**188,068**
Liabilities			
Amounts due to credit institutions	14	19,372	20,620
Amounts due to customers	15	192,080	133,524
Tax liabilities	8	691	788
Provisions	16	556	525
Other liabilities	13	3,236	2,265
Total liabilities		**215,935**	**157,722**
Shareholders' equity			
Share capital	17	5,385	5,000
Additionally paid-in capital		4,715	2,298
Retained earnings		35,539	23,048
Total shareholders' equity		**45,639**	**30,346**
Total liabilities and shareholders' equity		**261,574**	**188,068**
Financial commitments and contingencies	18	**22,890**	**8,844**

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

Name	**Position**
Vakhtang Butskhrikidze	General Director
Vano Baliashvili	Deputy General Director

February 22, 2004

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

INCOME STATEMENTS

(Thousands of Georgian Lari)

	Notes	Years ended December 31, 2003	2002
Interest income			
Loans		27,032	20,303
Credit institutions		2,335	1,616
Securities		3,975	1,785
		33,342	**23,704**
Interest expense			
Deposits		9,422	5,640
Borrowings		1,553	1,584
		10,975	**7,224**
Net interest income		**22,367**	**16,480**
Impairment of interest earning assets	10	3,959	2,282
		18,408	**14,198**
Fee and commission income		10,065	7,274
Fee and commission expense		1,450	1,036
Fees and commissions		**8,615**	**6,238**
Gains less losses from available-for-sale securities, net		-	917
Gains less losses from foreign currencies:			
- dealing, net		2,792	2,111
- translation differences		(900)	(177)
Share in losses of associates		(303)	(275)
Dividend income		244	201
Other income		768	1,377
Non interest income		**2,601**	**4,154**
Salaries and other employee benefits	19	7,817	6,431
Administrative and operating expenses	19	5,992	4,686
Depreciation and amortisation	11, 12	1,325	935
Other impairment and provisions (reversal)	10	113	(272)
Non interest expense		**15,247**	**11,780**
Income before income tax expense		**14,377**	**12,810**
Income tax expense	8	886	2,306
Net income		**13,491**	**10,504**

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total shareholders' equity*
December 31, 2001	**5,000**	**2,298**	**13,544**	**20,842**
Dividends			(1,000)	(1,000)
Net income			10,504	10,504
December 31, 2002	**5,000**	**2,298**	**23,048**	**30,346**
Capital contributions	385	2,417		2,802
Dividends			(1,000)	(1,000)
Net income			13,491	13,491
December 31, 2003	**5,385**	**4,715**	**35,539**	**45,639**

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

(Thousands of Georgian Lari)

	Notes	*Years ended December 31,* 2003	2002
Cash flows from operating activities			
Interest received		32,898	23,346
Interest paid		(11,942)	(6,619)
Fees and commissions received		10,065	7,274
Fees and commissions paid		(1,450)	(1,036)
Gains less losses from securities		-	917
Realised gains less losses in foreign currencies		2,792	2,111
Other operating income		1,012	1,578
Salaries and benefits		(7,817)	(5,668)
Administrative and operating expenses		(5,992)	(4,443)
Cash flow from operating activities before changes in operating assets and liabilities		**19,566**	**17,460**
Net (increase)/decrease in operating assets			
Obligatory reserve with NBG		(5,908)	(8,260)
Amounts due from credit institutions		(1,604)	(4,183)
Loans to customers		(50,093)	(29,801)
Other assets		(311)	21
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		(2,361)	(6,599)
Amounts due to customers		59,890	61,560
Other liabilities		971	-
Net cash flow from operating activities before income taxes		**20,150**	**30,198**
Corporate income tax paid		(1,585)	(1,964)
Net cash flow from operating activities		**18,565**	**28,234**
Cash flows from investing activities			
Purchases of investment securities		(3,239)	(3,846)
Proceeds from sale of investment securities		-	1,456
Purchase of equity investments		(595)	(339)
Purchases of property and equipment		(3,288)	(2,092)
Purchases of intangible assets		(42)	(197)
Net cash flow from investing activities		**(7,164)**	**(5,018)**
Cash flows from financing activities			
Capital contributions		2,802	-
Dividends paid		(1,000)	(1,000)
Net cash outflow from financing activities		**1,802**	**(1,000)**
Exchange rates changes effect on cash and cash equivalents		301	235
Net change in cash and cash equivalents		**13,504**	**22,451**
Cash and cash equivalents, beginning		**44,677**	**22,226**
Cash and cash equivalents, ending	4	**58,181**	**44,677**

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

(Thousands of Georgian Lari)

1. Principal activities

TBC Bank (the "Bank") was formed on December 17, 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 January 20, 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 the largest bank in Georgia in terms of total assets calculated under local accounting rules. Its main office is in Tbilisi and it has nine branches in Tbilisi, Rustavi, Kutaisi, Poti, Borjomi and Telavi. The Bank's registered legal address is 121 Rustaveli Street, 383720 Borjomi, Georgia.

As of December 31, 2003, five shareholders owned 82.30% of the outstanding shares.

As of December 31, 2003, members of the Supervisory Board controlled 42,032 shares, 78.06% (2002 – 28,185, 56.37%) of the Bank. The Bank had an average of 390 employees during the year (2002 – 331) and 431 employees at the end of 2003 (2002 – 381).

2. Basis of preparation

General
These 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"), unless otherwise indicated. Transactions in other currencies are treated as transactions in foreign currencies.

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.

Associates accounted for under equity method
The following associates are accounted for under equity method:

2003

Associates	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Share in net assets*
JSC United Financial Corporation	43%	Georgia	September 12, 1997	Plastic cards processing	September 12, 1997	356
JSC GPIH	20%	Georgia	May 08, 2001	Pension and insurance	May 08, 2001	111
UFC International Limited	40%	Virgin Islands	March 21, 2001	Plastic cards processing	March 21, 2001	137
Total associates						**604**

2002

Associates	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Share in net assets*
JSC United Financial Corporation	42%	Georgia	September 12, 1997	Plastic cards processing	September 12, 1997	353
JSC GPIH	20%	Georgia	May 08, 2001	Pension and insurance	May 08, 2001	250
UFC International Limited	40%	Virgin Islands	March 21, 2001	Plastic cards processing	March 21, 2001	137
Total associates						**740**

(Thousands of Georgian Lari)

3. Summary of accounting policies

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 NBG – excluding obligatory reserves, and current accounts due from credit institutions.

Amounts due from credit institutions
In the normal course of business, the Bank 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.

Recognition of financial instruments
The Bank 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 statement of income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Investment securities
The Bank 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 Bank as held-to-maturity or trading are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. 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. When debt securities with fixed maturities are non-marketable or no market information is available for similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. 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.

   Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Loans to customers
Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank 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 statement of income. 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 to customers are carried net of any allowance for impairment.

(Thousands of Georgian Lari)

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Operating leases

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

Taxation

The current income tax charge is calculated in accordance with the regulations of Georgia and of the cities in which the Bank has offices and branches and its subsidiaries are located. Deferred income taxes are calculated using the liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Georgia also has various operating taxes, which are assessed on the Bank activities. These taxes are included as a component of administrative and operating expenses in the statement of income.

Allowance for impairment of financial assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank 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 Bank expects to realize the financial instrument.

The allowances are based on the Bank'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 Bank 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 an asset is not collectable, it is written off against the related allowance for impairment; if the amount of impairment 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.

Investments in associates

Investments in associated companies, (generally investments of between 20% to 50% in a company's equity) where the Bank exercises significant influence, are accounted for using the equity method. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Bank has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Property and equipment

Property and equipment are carried at historical or revalued cost 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	30 – 50
Furniture and equipment	5-8
Vehicles	4-5
Computers and communication equipment	3-5
Leasehold improvements	Contractual period, up to 10 years
Other	2-8

(Thousands of Georgian Lari)

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

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

Intangible assets
Intangible assets include licenses, computers software and internally generated intangible assets. Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided to amortize the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives range from one to ten years.

Amounts due to credit institutions and to customers
Amounts due to 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. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Provisions
Provisions are recognized when the Bank 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
The Bank does 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. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital
Share capital is recognized at cost. Share capital contributed in assets other than cash is stated at the fair value of such assets at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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 ninety days. Interest income includes coupon income earned (received and accrued) on investment and trading securities and discount accretion. 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.

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 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. The official NBG exchange rates at December 31, 2003 and 2002, were 2.075 and 2.090 Georgian Lari to 1 USD, respectively.

(Thousands of Georgian Lari)

Dividends
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".

Reclassifications
The following reclassifications have been made to 2002 balances to conform to the 2003 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
19,131	Cash and due from National Bank	Amounts due from credit institutions	Change in presentation
27,450	Amounts due from credit institutions	Cash and cash equivalents	Change in presentation
20	Investment securities – available-for-sale	Investments in associates and non-consolidated subsidiaries	Correct misclassification
124	-	Investments in associates	Correction of the omission in disclosure of unrecognised deferred tax asset
371	Other operating expenses	Administrative and operating expenses	Change in presentation

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	2003	*2002*
Cash on hand	17,808	13,562
Current accounts with the NBG	4,268	3,665
Current accounts with other credit institutions	36,105	27,450
Cash and cash equivalents	**58,181**	**44,677**

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2003	*2002*
Obligatory reserve with NBG	25,039	19,131
Loans issued to other credit institutions	5,649	4,535
Other amounts	2,837	1,417
	33,525	**25,083**
Less – Allowances for impairment	(345)	(224)
Amounts due from credit institutions	**33,180**	**24,859**

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 Bank's ability to withdraw such deposit is not restricted by the statutory legislation.

Other amounts include 1,938 GEL, which are blocked under Letters of Credit and Guarantees (2002 – 1,417).

(Thousands of Georgian Lari)

6. Investment securities

Available-for-sale securities comprise:

	2003	2002
Corporate shares	2,922	2,922
Available-for-sale securities	**2,922**	**2,922**

Available-for-sale investments in corporate shares include the Bank's investment in JSC Bank of Georgia carried at cost of 2,801 GEL. This investment is 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 its fair value.

Held-to-maturity securities comprise:

	2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance	**6,882**	**7,118**	**3,643**	**3,846**

Interest rates and maturity of these securities are as follows:

	2003		2002	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	42% - 55%	2004	42% - 85%	2003

7. Loans to customers

Loans to customers comprise:

	2003	2002
Loans to customers	154,214	105,330
Overdrafts	1,938	1,836
	156,152	**107,166**
Less – Allowance for loan impairment	(9,672)	(6,000)
Loans to customers	**146,480**	**101,166**

As of December 31, 2003, the Bank had a concentration of loans represented by 40,470 GEL due from ten borrowers (26% of total gross loan portfolio) (2002 – 23,272 GEL due form ten borrowers (22% of total gross loan portfolio)). An allowance of 5,361 GEL (2002 – 1,286 GEL) was made against these loans.

Loans have been extended to the following types of customers:

	2003	2002
Private companies	131,064	87,506
Individuals	25,088	19,660
Loans to customers	**156,152**	**107,166**

(Thousands of Georgian Lari)

Loans are made principally within Georgia to the following sectors:

	2003	*2002*
Trading enterprises	48,329	32,939
Manufacturing	26,072	14,767
Pawn loans	19,072	16,515
Consumer	16,767	12,472
Services	12,665	10,086
Real estate and construction	8,525	2,446
Energy	6,839	4,930
Heavy industry	4,686	2,772
Communication	2,392	4,835
Other	10,805	5,404
Loans to customers	**156,152**	**107,166**

8. Taxation

The corporate income tax expense comprises:

	2003	*2002*
Current tax charge	3,101	2,339
Deferred tax charge	(602)	(33)
Prior periods taxation	(1,613)	-
Income tax expense	**886**	**2,306**

During 2003, the Bank applied for and received profit tax refunds related to prior periods. The Bank had not previously claimed available exemptions related to its profit tax liabilities. Following resolution of this matter, the Bank received GEL 1,613 in profit tax refunds. A local consultant provided tax advisory services in connection with this process. The respective professional fees are included in administrative and operating expenses of the Bank for 2003.

Georgian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. The tax rate for banks for profits other than on state securities was 20% in 2003 and 2002. The tax rate for interest income on state securities was 10%.

Tax assets and liabilities consist of the following:

	2003	*2002*
Deferred tax assets	635	33
Current tax liabilities	691	788

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:

	2003	*2002*
Income before tax	**14,377**	**12,810**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**2,875**	**2,562**
Prior periods taxation	(1,613)	-
Income received net of taxes	(795)	(343)
Change in unrecognised differed tax asset	352	199
Impairment charge (reversal) for assets	-	(196)
Non deductible expenditures:		
- charity	51	63
- staff bonuses	24	21
Other	(8)	-
Income tax expense	**886**	**2,306**

(Thousands of Georgian Lari)

Deferred tax assets and liabilities as of December 31, comprise:

	2003	2002
Tax effect of deductible temporary differences:		
Contractual interest not accrued	533	-
Allowance for loan impairment	253	-
Investments in associates	185	55
Provisions	111	144
Intangible assets	76	2
Other assets	38	-
Property and equipment	-	31
Gross deferred tax assets	**1,196**	**232**
Unrecognized deferred tax assets	(551)	(199)
Deferred tax asset	**645**	**33**
Tax effect of taxable temporary differences:		
Property and equipment	10	-
Deferred tax liability	**10**	**-**
Deferred tax asset, net	**635**	**33**

Georgia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Finance, Tax Department and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create 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; 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:

	2003	2002
Subsidiaries	520	20
Associated companies	604	740
	1,124	**760**
Less – Allowance for diminution in value	(137)	(65)
Investments in associates and non-consolidated subsidiaries	**987**	**695**

Movements in investments in associate and non-consolidated subsidiaries comprise:

	2003	2002
Balance, beginning of the period	**760**	**421**
Purchase cost	667	614
Share of net income (loss)	(303)	(275)
Balance, end of the period	**1,124**	**760**

For the full list of associates please refer to Note 2.

Investments in non-consolidated subsidiaries comprises investment in TBC Broker LLC (20 GEL) and investment in JSC Tbilisi Leasing (500 GEL). The Bank has not consolidated its investments in named companies, as the financial effect is immaterial to the Bank as a whole. Investment in the TBC Broker LLC and JSC Tbilisi Leasing is stated at cost.

(Thousands of Georgian Lari)

Authorized capital of JSC Tbilisi Leasing in accordance with its charter and court registration equals to 1,000 GEL. The Bank is the sole shareholder of the company owning 100% of the company's shares. As of December 31, 2003 the Bank had contributed only 500 GEL to the share capital of JSC Tbilisi Leasing. This is considered a deficiency in the company's registration and in case of the failure to contribute the full amount of the authorized capital the company may be terminated and contribution returned back to the owner. However, as JSC Tbilisi Leasing had no operations during 2003, the subsidiary has not been consolidated.

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, 2001	**82**	**4,259**	**4,341**
Charge	142	2,140	2,282
Write-offs	-	(1,812)	(1,812)
Recoveries	-	1,413	1,413
December 31, 2002	***224***	***6,000***	**6,224**
Charge	121	3,838	3,959
Write-offs	-	(1,238)	(1,238)
Recoveries	-	1,072	1,072
December 31, 2003	**345**	**9,672**	**10,017**

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

	Investment securities					
	Associates and non-consolidated subsidiaries	*Available-for-sale (equity)*	*Other assets*	*Other risks*	*Guarantees and commitments*	*Total*
December 31, 2001	**65**	**750**	**216**	**206**	**53**	**1,290**
Charge (reversal)	-	(538)	-	-	266	(272)
Write- offs	-	(212)	(25)	-	-	(237)
Recoveries	-	-	-	-	-	-
December 31, 2002	**65**	**-**	**191**	**206**	**319**	**781**
Charge (reversal)	72	-	16	(206)	231	113
Write-offs	-	-	(28)	-	-	(28)
Recoveries	-	-	-	-	6	6
December 31, 2003	**137**	**-**	**179**	**-**	**556**	**872**

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Bank's internal guidelines, loans are 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 and buildings	*Fixtures and equipment*	*Assets under construction*	*Total*
Cost				
December 31, 2002	**3,842**	**4,041**	**2,734**	**10,617**
Additions	116	1,361	1,840	3,317
Disposals	(4)	(8)	(17)	(29)
December 31, 2003	**3,954**	**5,394**	**4,557**	**13,905**
Accumulated depreciation				
December 31, 2002	**702**	**1,507**	**-**	**2,209**
Charge	224	891	-	1,115
Disposals	-	(7)	-	(7)
December 31, 2003	**926**	**2,391**	**-**	**3,317**
Net book value:				
December 31, 2002	**3,140**	**2,534**	**2,734**	**8,408**
December 31, 2003	**3,028**	**3,003**	**4,557**	**10,588**

During 2002 the Bank dissolved its subsidiary and acquired its property and equipment that consisted of the Central Department Store building in Tbilisi. In 2003 the Bank has started capital reconstruction process of this building in order to transfer Bank's headquarters. Total payments for reconstruction in current year (GEL 1,639) include GEL 1,235 of payments to "Mshenebeli" LLC, a related party as disclosed in Note 23.

12. Intangible assets

The movements of intangible assets, were as follows:

	Computer software
Cost:	
December 31, 2002	**707**
Additions	35
December 31, 2003	**742**
Accumulated amortization:	
December 31, 2002	**363**
Charge	210
December 31, 2003	**573**
Net book value:	
December 31, 2002	**344**
December 31, 2003	**169**

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2003	2002
Prepayments	428	406
Trade debtors	363	266
Prepaid operating taxes	339	509
Collaterals retained	265	149
Other	334	182
	1,729	**1,512**
Less – Allowance for impairment of other assets	(179)	(191)
Other assets	**1,550**	**1,321**

Other liabilities comprise:

	2003	2002
Accrued expenses	2,064	1,618
Sundry creditors	146	116
Operating taxes payable	296	336
Suspense amounts	566	-
Other	164	195
Other liabilities	**3,236**	**2,265**

Accrued expenses include GEL 1,764 of accrued employee bonuses for 2003 (2002 – GEL 1,347). Among them, bonuses payable to members of the Board of Directors are GEL 1,352 (2002 – GEL 1,218).

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2003	2002
Borrowings from international credit institutions	14,740	17,267
Current accounts	2,632	2,397
Borrowings from NBG	2,000	-
Time deposits	-	956
Amounts due to credit institutions	**19,372**	**20,620**

Credit agreements with international institutions contain restrictive terms and covenants. The primary terms and covenants restrict the Bank's ability to take additional borrowings, limit exposures to single borrowers, and establish minimum capital adequacy ratios. Bank management is of the opinion that no violations of these terms and covenants have occurred.

Included into current accounts is a balance of GEL 908 (2002 – GEL 534) with a single Georgian bank.

15. Amounts due to customers

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

	2003	2002
Current accounts	58,749	53,143
Time deposits	133,331	80,381
Amounts due to customers	**192,080**	**133,524**
Held as security against letters of credit	429	4,224
Held as security against guarantees	6,897	4,843
Held as security against loans issued	5,545	3,716

(Thousands of Georgian Lari)

Amounts due to customers include GEL 30,097 (16% of total portfolio) due to 30 customers (2002 – GEL 32,642 (24%)).

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

	2003	*2002*
Individuals	128,510	79,143
Private enterprises	60,336	52,626
State and budgetary organisations	2,826	1,393
Employees	408	362
Amounts due to customers	**192,080**	**133,524**

An analysis of customer accounts by sector follows:

	2003	*2002*
Individuals	128,510	79,143
Trade and services	22,656	18,522
Transport and communication	2,394	1,071
Mining and natural resources processing	1,829	423
Energy	1,708	4,395
Construction	961	1,647
Agriculture	100	261
Other	33,922	28,062
Amounts due to customers	**192,080**	**133,524**

16. Provisions

Provisions as of December 31, comprised:

	2003	*2002*
Provisions for guarantees and credit related commitments	556	319
Provisions for other losses	-	206
Provisions	**556**	**525**

17. Share capital

Movement of shares authorised, fully paid and outstanding was as follows:

	Number of shares	**Nominal amount**	**Total**
December 31, 2001 and 2002	**50,000**	**100**	**5,000**
Contributed in GEL	3,847	100	385
December 31, 2003	**53,847**	**100**	**5,385**

Share capital of the Bank was contributed by the shareholders in Georgian Laris and US Dollars and they are entitled to dividends and any capital distribution in Georgian Laris.

In May 2003, amendments to the share capital of the Bank were approved by shareholders as follows:

- The share capital was increased through share emission of additional 3,847 common shares with par value of GEL 100 each, and sold at premium of GEL 628 per share.

The Shareholders' Meeting in May 2003, declared dividends based on the financial results for the year ended December 31, 2002. Total declared dividends that were fully paid in 2003, and totalled GEL 1,000.

(Thousands of Georgian Lari)

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 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 consolidated 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.

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.

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

	2003	*2002*
Credit related commitments		
Guarantees	15,583	10,746
Letters of credit	462	4,375
Undrawn loan commitments	3,875	2,215
	19,920	**17,336**
Lease commitments		
Not later than 1 year	271	251
Later than 1 year but not later than 5 years	411	477
Later than 5 years	145	166
	827	**894**
Capital expenditure commitments	**4,810**	**-**
Less – Cash secured	(2,111)	(9,067)
Less – Provisions	(556)	(319)
Financial commitments and contingencies	**22,890**	**8,844**

For credit related commitments that are either secured by less than 100%, or issued without security, the Bank estimates the likelihood of possible losses arising from credit related commitments on a specific basis.

Insurance
The Bank's premises are insured for GEL 4,103. The Bank has also obtained the Bankers Blanket Bond and Electronic Computer Crime insurance. Aggregated Limit of the liability is US Dollars 500,000. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

(Thousands of Georgian Lari)

19. Salaries and administrative and operating expenses

Salaries and benefits and administrative and operating expenses comprise:

	2003	*2002*
Salaries and bonuses	5,995	4,956
Social security costs	1,822	1,475
Salaries and benefits	**7,817**	**6,431**
Occupancy and rent	1,392	1,282
Business development	1,171	871
Professional services	1,167	644
Communication and supplies	841	709
Operating taxes	565	515
Transportation and vehicle maintenance	284	214
Other	572	451
Administrative and operating expenses	**5,992**	**4,686**

The Bank does not have pension arrangements separate from the State pension system of Georgia. However, Georgian Pension and Insurance Holding ("GPIH") – a local commercial pension fund serves employees of the Bank at standard terms. The Bank serves as an agent. At the employees' standard contractual request, the Bank a predefined portion of each employee's salary, based on the pension agreement between the employee and GPIH, and transfers the amounts to GPIH.

20. 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, liquidity and market movements in interest and foreign exchange rates. A summary 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 segments. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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.

(Thousands of Georgian Lari)

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

	2003				*2002*			
	Georgia	***OECD***	***Other non-OECD***	***Total***	***Georgia***	***OECD***	***Other non-OECD***	***Total***
Assets:								
Cash and cash equivalents	22,076	35,666	439	58,181	17,227	26,961	489	44,677
Credit institutions	30,343	2,837	-	33,180	23,442	1,417	-	24,859
Investment securities:								
- available-for-sale	2,922	-	-	2,922	2,922	-	-	2,922
- held-to-maturity	6,882	-	-	6,882	3,643	-	-	3,643
Loans to customers	146,480	-	-	146,480	101,166	-	-	101,166
Other assets	13,929	-	-	13,929	10,729	-	72	10,801
	222,632	**38,503**	**439**	**261,574**	**159,129**	**28,378**	**561**	**188,068**
Liabilities:								
Due to credit institutions	4,640	14,730	2	19,372	1,385	19,228	7	20,620
Due to customers	192,080	-	-	192,080	133,524	-	-	133,524
Other liabilities	4,483	-	-	4,483	3,578	-	-	3,578
	201,203	**14,730**	**2**	**215,935**	**138,487**	**19,228**	**7**	**157,722**
Net position	**21,429**	**23,773**	**437**	**45,639**	**20,642**	**9,150**	**554**	**30,346**

Market risk
The Bank 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 Bank 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 Bank is potentially exposed to loss in an amount equal to the total amount of such commitments.

(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 the NBG. The Bank's exposure to foreign currency exchange rate risk follows:

	2003			*2002*		
	GEL	*Foreign currencies*	*Total*	*GEL*	*Foreign currencies*	*Total*
Assets:						
Cash and cash equivalents	11,161	47,020	58,181	11,029	33,648	44,677
Credit institutions, net	25,039	8,141	33,180	19,222	5,637	24,859
Investment securities:						
- available-for-sale	2,922	-	2,922	2,922	-	2,922
- held-to-maturity	6,882	-	6,882	3,643	-	3,643
Loans to customers	145	146,335	146,480	646	100,520	101,166
Other assets	12,923	1,006	13,929	10,511	290	10,801
	59,072	**202,502**	**261,574**	**47,973**	**140,095**	**188,068**
Liabilities:						
Due to credit institutions	2,074	17,298	19,372	93	20,527	20,620
Due to customers	15,392	176,688	192,080	14,772	118,752	133,524
Other liabilities	3,544	939	4,483	3,023	555	3,578
	21,010	**194,925**	**215,935**	**17,888**	**139,834**	**157,722**
Net position	**38,062**	**7,577**	**45,639**	**30,085**	**261**	**30,346**

Foreign currencies represent mainly USD amounts, but also include currencies from other OECD countries.

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.

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

	2003		*2002*	
	GEL	*USD*	*GEL*	*USD*
Bank rates				
Due from credit institutions	4.2%	17.0%	4.5%	17.9%
Loans to customers	24.3%	20.5%	22.6%	21.7%
Due to credit institutions	12.8%	5.2%	-	6.8%
Deposits, generally for terms up to one year	5.5%	8.0%	7.9%	8.3%
Market rates				
Credit institutions	2.2%	14.9%	-	14.7%
Loans to customers	24.8%	21.3%	17.7%	22.7%
Due to credit institutions	2.2%	14.9%	-	14.7%
Deposits, generally for terms up to one year	4.9%	9.2%	5.3%	11.3%

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 Bank 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.

(Thousands of Georgian Lari)

The following tables 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.

	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	58,181	-	-	-	-	-	-	58,181
Credit institutions	-	26,472	277	6,376	55	-	-	33,180
Investment securities:								
- available-for-sale	-	-	-	-	-	2,922	-	2,922
- held-to-maturity	-	6,296	-	586	-	-	-	6,882
Loans to customers	-	31,917	19,995	51,439	41,887	1,039	203	146,480
Other assets	-	1,259	421	419	-	11,830	-	13,929
	58,181	**65,944**	**20,693**	**58,820**	**41,942**	**15,791**	**203**	**261,574**
Liabilities:								
Due to credit institutions	2,644	3,194	416	2,398	9,947	773	-	19,372
Due to customers	56,500	61,385	14,354	52,869	6,834	138	-	192,080
Other liabilities	566	2,054	752	1,095	16	-	-	4,483
	59,710	**66,633**	**15,522**	**56,362**	**16,797**	**911**	**-**	**215,935**
Net position	**(1,529)**	**(689)**	**5,171**	**2,458**	**25,145**	**14,880**	**203**	**45,639**
Accumulated gap	***(1,529)***	***(2,218)***	***2,953***	***5,411***	***30,556***	***45,436***	***45,639***	

	2002							
	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	44,677	-	-	-	-	-	-	44,677
Credit institutions	-	19,448	2,158	2,285	768	200	-	24,859
Investment securities:								
- available-for-sale	-	-	-	-	-	2,922	-	2,922
- held-to-maturity	-	2,420	1,223	-	-	-	-	3,643
Loans to customers	-	23,469	18,667	35,831	22,477	139	583	101,166
Other assets	-	1,321	-	33	-	9,447	-	10,801
	44,677	**46,658**	**22,048**	**38,149**	**23,245**	**12,708**	**583**	**188,068**
Liabilities:								
Due to credit institutions	-	2,832	1,052	9,858	6,878	-	-	20,620
Due to customers	78,107	5,686	15,843	26,223	7,624	41	-	133,524
Other liabilities	-	2,265	-	1,313	-	-	-	3,578
	78,107	**10,783**	**16,895**	**37,394**	**14,502**	**41**	**-**	**157,722**
Net position	**(33,430)**	**35,875**	**5,153**	**755**	**8,743**	**12,667**	**583**	**30,346**
Accumulated gap	***(33,430)***	***2,445***	***7,598***	***8,353***	***17,096***	***29,763***	***30,346***	

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 Bank'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 Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

(Thousands of Georgian Lari)

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 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.

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.

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.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank balance sheet at fair value.

	2003		*2002*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Amounts due from credit institutions	33,180	33,449	24,650	24,694
Loans to customers	146,480	145,300	101,166	105,830
Financial liabilities				
Amounts due to credit institutions	19,372	20,826	20,859	21,628
Amounts due to customers	192,080	191,667	133,524	133,528

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 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.

(Thousands of Georgian Lari)

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 Bank had the following transactions with related parties:

	2003			2002		
	Related party transactions	**Percent on normal conditions**	**Total category**	**Related party transactions**	**Percent on normal conditions**	**Total category**
Loans to customers, gross	3,295	100%	156,152	2,490	100%	107,166
Investments in associates and non-consolidated subsidiaries	1,124	100%	1,124	760	100%	760
Amounts due to customers	6,658	100%	192,080	2,902	-	133,524
Provision for other risks	-	-	-	181	-	206
Commitments and guarantees issued	582	100%	19,920	1,023	100%	10,336
Professional services expense	174	100%	1,167	253	100%	644
Other related party payments	1,235	100%	1,639	-	-	-

Other related party payments comprise payments to "Mshenebeli" LLC, contractor for reconstruction works on the new head office building of the Bank. These transfers have been capitalized as construction in progress in current year.

23. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on NBG requirements. As of December 31, 2003 and 2002, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2003 and 2002, was 23% and 22% respectfully. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.