Bank of Georgia Group
Consolidated Financial Statements

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

CONTENTS

REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

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

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

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

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

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

Ernst & Young Audit, LLC

April 13, 2005

CONSOLIDATED BALANCE SHEETS

(Thousands of Georgian Lari)

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

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

Vladimer Gurgenidze General Director

Irakli Gilauri Deputy of General Director

April 13, 2005

The accompanying notes on pages 5 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Georgian Lari)

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

The accompanying notes on pages 5 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

(Thousands of Georgian Lari)

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

The accompanying notes on pages 5 to 24 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Georgian Lari)

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

The accompanying notes on pages 5 to 24 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

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

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

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

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

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

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

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

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

2. Basis of Preparation

General

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

The Bank and its subsidiaries are required to maintain their records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. The financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets and liabilities held for trading, as well as revaluation of property.

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

(Thousands of Georgian Lari)

Changes in Group's organization

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

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

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

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

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

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

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

Goodwill on the 2004 transactions above comprised the following:

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

(Thousands of Georgian Lari)

3. Summary of Accounting Policies

Principles of consolidation

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

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

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

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

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

Recognition of Financial Instruments

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

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

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

Cash and Cash Equivalents

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

Trading Securities

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

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for

(Thousands of Georgian Lari)

similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts Due from Credit Institutions

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

Investment Securities

The Group classified its investment securities into two categories:

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

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

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

Loans to Customers

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

Leases

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

Taxation

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

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

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

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

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

Investments in Associates and Non-Consolidated Subsidiaries

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

Allowances for Impairment of Financial Assets

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

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

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Property and Equipment

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

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

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

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

Goodwill

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

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

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

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

Other Intangible Assets

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

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

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

Provisions

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

Retirement and Other Benefit Obligations

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

Share Capital

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

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

Contingencies

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

Income and Expense Recognition

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

(Thousands of Georgian Lari)

Foreign Currency Translation

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

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

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

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

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

5. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

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

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

6. Investment Securities

Available-for-sale securities comprise:

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

(Thousands of Georgian Lari)

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

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

7. Loans to Customers

Loans are made principally within Georgia and comprise:

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

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

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

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

Loans have been extended to the following types of customers:

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

(Thousands of Georgian Lari)

8. Taxation

The corporate income tax expense comprises:

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

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

Tax assets and liabilities consist of the following:

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

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

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

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

(Thousands of Georgian Lari)

Deferred tax assets and liabilities as of December 31 comprise:

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

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

9. Investments in Associates and Non-Consolidated Subsidiaries

Investments in associates and non-consolidated subsidiaries comprise:

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

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

10. Allowances for Losses and Provisions

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

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

(Thousands of Georgian Lari)

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

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

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

11. Property and Equipment

The movements of property and equipment, were as follows:

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

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

(Thousands of Georgian Lari)

12. Intangible Assets

The movements of intangible assets were as follows:

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

13. Other Assets and Liabilities

Other assets comprise:

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

Other liabilities comprise:

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

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

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

(Thousands of Georgian Lari)

14. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

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

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

15. Amounts Due to Customers

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

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

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

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

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

An analysis of customer accounts by sector follows:

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

16. Provisions

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

(Thousands of Georgian Lari)

17. Shareholders' Equity

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

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

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

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

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

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

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

18. Commitments and Contingencies

Operating Environment

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

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

Legal

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

(Thousands of Georgian Lari)

Financial commitments and contingencies

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

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

Insurance

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

19. Salaries and Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2004	*2003*
Salaries and bonuses	10,118	7,012
Social security costs	3,140	2,048
Salaries and benefits	**13,258**	**9,060**
Occupancy and rent	2,160	2,145
Security	1,136	1,100
Repair and maintenance of property and equipment	1,064	791
Marketing and advertising	905	681
Operating taxes	785	908
Telephone and post	695	738
Office supplies	613	867
Expenses related to banking services	216	27
Insurance	187	164
Impairment of property	-	467
Business travel and related	147	185
Entertainment	107	123
Personnel training	90	105
Legal and consultancy	31	47
Penalties incurred	-	9
Other	191	227
Administrative and operating expenses	**8,327**	**8,584**

(Thousands of Georgian Lari)

20. Risk Management Policies

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

Credit Risk

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

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

Concentration

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

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

Market Risk

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

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

(Thousands of Georgian Lari)

Currency Risk

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

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

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

Interest Rate Risk

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

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

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

(Thousands of Georgian Lari)

Liquidity Risk

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

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

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

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

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

(Thousands of Georgian Lari)

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

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

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

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

21. Fair Values of Financial Instruments

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

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

Amounts Due from and to Credit Institutions

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

Loans to Customers

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

Investment Securities

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

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

Investments in Associates and Non-Consolidated Subsidiaries

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

Amounts Due to Customers

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

(Thousands of Georgian Lari)

22. Related Party Transactions

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

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

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

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

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

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

23. Capital Adequacy

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

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