BANK OF GEORGIA
Joint Stock Company
3, Pushkin Street - 380007 Tbilisi
Republic of Georgia

Auditors' Report and
Financial Statements
Prepared under International Accounting Standards
for the year ended 31 December 2001



PRICEWATERHOUSECOOPERS

BANK OF GEORGIA
Annual report
for the year ended 31 December 2001

	Page
Independent auditor's report	3
Balance sheet	4
Off-balance sheet commitments	5
Statement of changes in shareholder's equity	5
Income statement	6
Cash flow statement	7
Notes to the financial statements	8-39

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK OF GEORGIA

We have audited the accompanying balance sheet of Bank of Georgia as of 31 December 2001 and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements set out on pages 4 to 39 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 present fairly, in all material respects the financial position of Bank of Georgia as at 31 December 2001, the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

Rainer Stawinoga
Partner

Paris, France
11 March, 2002

BALANCE SHEET

	Notes	Net 2000	**Gross 2001**	Depreciation / Provision	**Net 2001**
Assets					
Cash and amounts due from banks	4	18,329	**16,831**	-	**16,831**
Amounts with the National Bank	5	10,906	**11,598**	-	**11,598**
Trading securities	6	486	**5,808**	-	**5,808**
Factoring	7	171	**1,439**	(144)	**1,295**
Loans to clients	8	60,115	**86,480**	(4,834)	**81,646**
Other assets	9	1,013	**1,264**	(172)	**1,092**
Investments securities available for sale	10	376	**629**	(103)	**526**
Property, plant and equipment	11	13,386	**20,455**	(3,634)	**16,821**
Total assets		104,782	**144,504**	(8,887)	**135,617**
Liabilities and shareholders funds					
Deposits from banks	12	3,721	**1,992**	-	**1,992**
Customers deposits	13	56,216	**68,025**	-	**68,025**
Other liabilities	14	238	**1,090**	-	**1,090**
Provisions for risk	15	397	**227**	-	**227**
Long term debts to Int. Institutions	16	11,880	**22,982**	-	**22,982**
Total liabilities		72,452	**94,316**	-	**94,316**
Share capital	17	8,606	**9,856**	-	**9,856**
Share premium		1,771	**4,530**	-	**4,530**
Revaluation reserve		6,000	**6,000**	-	**6,000**
Retained earnings		15,953	**20,915**	-	**20,915**
Shareholders' funds		32,330	**41,301**	-	**41,301**
Total liabilities and shareholders' funds		104,782	**135,617**	-	**135,617**

The accompanying notes are an integral part of these financial statements and should be read in conjunction therewith

OFF BALANCE SHEET COMMITMENTS

	2000	**2001**
Commitments given		
Letters of credits	1,387	**1,647**
Letters of guarantees	6,724	**11,819**
Credit lines open to the clients and unused	3,423	**4,185**
Provision for risks (Note 15)	(397)	**(227)**
Total off-balance sheet commitments	11,137	**17,424**

	2000	**2001**
Commitments received		
Unused credit lines	13,162	**7,808**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Revaluation reserve	Retained earnings	**Total**
Balance at 31 December 1999	**5,730**	**-**	**6,000**	**12,128**	**23,858**
Issue of share capital	2,876	1,771	-	-	**4,647**
Net profit	-	-	-	6,322	**6,322**
Dividends paid	-	-	-	(1,977)	**(1,977)**
Allocation of 1999 profit tax	-	-	-	(520)	**(520)**
Balance at 31 December 2000	**8,606**	**1,771**	**6,000**	**15,953**	**32,330**
Issue of share capital	1,250	2,759	-	-	**4,009**
Net profit	-	-	-	7,670	**7,670**
Dividends paid	-	-	-	(2,037)	**(2,037)**
Bonuses paid	-	-	-	(671)	**(671)**
Balance at 31 December 2001	**9,856**	**4,530**	**6,000**	**20,915**	**41,301**

The accompanying notes are an integral part of these financial statements and should be read in conjunction therewith

INCOME STATEMENT

	Notes	2000	**2001**
Interest income	18	20,807	**22,532**
Interest expense	19	(4,910)	**(5,918)**
Net interest income		15,898	**16,614**
Fee and commission income	20	6,330	**8,605**
Fee and commission expense	21	(2,352)	**(3,039)**
Net fees and commissions income		3,978	**5,566**
Other operating income	22	2,488	**3,309**
Total income		22,364	**25,489**
Other operating expense	23	(689)	**(692)**
Salaries expenses	24	(4,383)	**(6,735)**
Administrative expenses	25	(7,012)	**(6,748)**
Bad and doubtful debts expense	26	(3,248)	**(1,726)**
Total operating expenditure		(15,331)	**(15,901)**
Net operating profit		7,033	**9,588**
Income tax	27	(711)	**(1,918)**
Profit after taxation		6,322	**7,670**

The accompanying notes are an integral part of these financial statements and should be read in conjunction therewith

CASH FLOW STATEMENT

	Notes	2000	**2001**
1. Cash Flow from Operating Activities			
Interest income received		19,162	**20,742**
Interest paid		(4,079)	**(5,251)**
Fees and commission income		6,330	**8,605**
Fees and commission expenses		(2,352)	**(3,039)**
Other operating income		2,488	**3,177**
Other operating expenses		(689)	**(642)**
Salaries expenses		(4,383)	**(7,405)**
Administration expenses		(6,498)	**(5,758)**
Recoveries on loans previously written-off		984	**184**
Income tax		(996)	**(1,849)**
Dividend received		-	**18**
Net cash flow from operating activities I		9,459	**8,782**
2. Change in Operating Assets			
Increase in obligatory reserve at NBG		(1,990)	**(878)**
Increase in trading securities		-	**(5,144)**
Increase in factoring		-	**(1,119)**
Increase in loans to customers		(20,356)	**(21,422)**
(Increase)/decrease in other assets		225	**(319)**
Net cash flow from operating assets		(22,121)	**(28,882)**
3. Change in Operating Liabilities			
(Decrease)/increase/ in deposits from banks		1,063	**(1,692)**
Increase in amounts owed to other depositors		16,989	**11,773**
(Decrease)/increase/ in other liabilities		(668)	**851**
Increase in debts to international institutions		1,993	**10,581**
Net cash flow from operating liabilities		19,377	**21,513**
Net cash flow from operating activities II		(2 744)	**(7,369)**
4. Change in Investing activities			
Purchase of fixed asset (net of proceeds)		(2,525)	**(4,631)**
Purchase of investments		(42)	**(236)**
Net cash flow from Investing Activities III		(2,567)	**(4,867)**
5. Change In Financing Activities			
Increase in share capital		2,876	**1,250**
Increase in share premium		1,762	**2,759**
Dividends paid		(1,977)	**(2,062)**
Net cash flow from financing activities IV		2,661	**1,947**
Net increase / (decrease) in cash and cash equivalents I+II+III+IV		6,809	**(1,508)**

The accompanying notes are an integral part of these financial statements and should be read in conjunction therewith

CASH FLOW RECONCILIATION STATEMENT

	Notes	2000	**2001**
Cash as at January 1,		14,793	**21,602**
Net cash inflow (outflow)		6,809	**(1,508)**
Cash as at December 31,		21,602	**20,094**
Detail of cash			
Correspondent account	4	11,330	**10,012**
Cash	4	7,000	**6,818**
Current account with NBG	5	2,786	**2,600**
T-bills		486	**664**
Total of Cash		21,602	**20,094**

The accompanying notes are an integral part of these financial statements and should be read in conjunction therewith

(1) Accounting policies and basis of presentation

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(2): Basis of preparation

The financial statements are prepared in accordance with and comply with International Accounting Standards (IAS), issued by the International Accounting Standards Board. The accompanying financial statements are maintained under the historical cost convention as adjusted for the revaluation of fixed assets.

(3): Summary of significant accounting policies

(a) Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gain and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at year-end exchange rates. Unrealised gains and losses on translation of foreign currency denominated assets and liabilities are recognised through the income statement in retained earnings and form part of the distributable reserves of the bank. The unrealised gain for the year 2001 is: 631 thousand GEL.
The exchange rate for the US dollar against the Georgian Lari evolved in 2001 is as follows:

	GEL/ US$
At 1 January 2000	1.9750
Highest (at 31 March 2001)	2.1799
Average Exchange Rate	2.0730
Lowest (at 1 January 2001)	1.9750
31 December 2001	2.0600
25 February 2002	2.2240

(b) Interest expense and income

Interest expense and income are recognised in the income statement on an accrual basis. The recognition of interest income ceases when the payment of interest or principal is in doubt, and does so automatically if principal or interest payments are 30 days or more in arrears. Any interest previously accrued but not received on a loan subsequently placed on a non-accrual basis is reversed. Interest is included in income thereafter only when it is received. Loans are returned to the accruals basis only when doubt about collectability is removed and when the outstanding arrears of interest and principal are received.

(c) Fee and commission income

Fee and commission consist mainly of fees received for foreign currency transactions and from loans granted. Fees arising from guarantees given, opening letters of credit, commissions from managed funds on behalf of legal entities and citizens are also included.

Fees relating to loans are credited to income upon the granting of the applicable loan. Commissions on foreign currency transactions are credited to income on receipt.

Note 3: Summary of Significant Accounting Policies (continued)

(d) Securities

i) Available for sale investment securities.

Investment securities include equity investments, which are not listed on recognised stock exchanges. Investment securities are primarily held for yield purposes. They are stated at cost less any permanent diminution in value.

ii) Trading securities.

Trading securities consist of short-term treasury bills issued by The Ministry of Finance of the Republic of Georgia. They are stated at market value, which is determined for traded securities based on quoted market prices at year-end. However, in a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Securities transactions are recorded into balance sheet position on a settlement date basis.

(e) Loans and advances

Loans are stated at the principal amounts outstanding net of provisions for losses on loans. Provisions for loan losses are based on the evaluation by Management of the collectability of loans and advances. Specific provisions are raised against debts whose recovery has been identified as doubtful. Recoveries of amounts previously written off are treated as income by reducing the provision for losses on loans for the year. The net aggregate provisions raised during the year are recognised in the income statement.

Estimates of losses require the exercise of judgement and the use of assumptions. The principal factors considered in determining the loan loss provision are the growth, composition and quality of the loan portfolio, the ability of the individual borrowers to repay the loans, the past performance history of the individual loans, the level of past due loans, current economic conditions and the value and adequacy of collateral.

Loans and advances that cannot be recovered are written off and charged against the balance sheet provision for losses on loans.

(f) Property, plant and equipment

All property, plant and equipment are stated at historical cost or revalued amount less depreciation and correspondingly restated as explained below. The property, plant and equipment of the Bank have been revalued in 1998 to ensure that the restated fixed assets carrying values reflect the estimated recoverable amounts. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

	Useful life
Buildings	50 years
Equipment	10 years
Furniture	10 years
Computer	5 years
Motor vehicles	5 years

(f) Property, plant and equipment (continued)

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. All items purchased in 2001 and having value of less than 500 GEL is expensed in the income statement for the year 2001. As of 1st January 2001, the threshold for the recognition of small value assets is 500 GEL.

(g) Taxation

Taxes relating to the current year profits are paid quarterly. The general taxation rate for income tax is 20 % in Georgia and the property tax is 1%.

Since the 2nd quarter of 1998 till the 2nd quarter of 2001 (4 years) the bank had a 50% exemption on these taxes. The bank was paying 10% for the income tax and 0.5% for the property tax. The tax exemption of 50% is no more valid. The bank becomes fully taxable. (20%-Income tax, 1%-for the property tax).

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(h) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including cash and balances with central bank, treasury bills and other eligible bills, amounts due from other banks and trading securities.

(i) Changes in accounting methods

Until 2000 the amount of bonuses granted to bank's staff was determined by the general assembly of the shareholders held in the following year. The shareholders used to make their decision based on the profit for the previous year. As of 2001, management of the bank has decided to record at year-end accounts an accrual for those bonuses in accordance with the matching principle and in compliance with the new chart of accounts applicable to Georgian banks.

Note 4: Cash and amounts due from banks

Cash and short-term funds include cash on hand, and correspondent accounts, including overnight deposits and short-term placements with other banks.

	2000	**2001**
Cash in hand	7,000	**6,819**
Correspondent banks accounts and placements with other banks		
- With non CIS countries	11,314	**9,569**
- With CIS countries	467	**443**
Provision on correspondent banks accounts	(452)	**-**
Total cash and amounts due from banks	18,329	**16,831**

4.1. Cash in hand

	2000	**2001**
Local currency	2,883	**3,011**
Foreign currencies	4,117	**3,808**
Total cash in hand	7,000	**6,819**

The breakdown of amounts in cash in foreign currencies is as follows:

	2000	**2001**
USD – United States Dollar	3,426	**3,676**
DEM – Deutsche Mark	328	**41**
Great Britain Pound	28	**11**
Russian Ruble	5	**23**
Other soft currencies and payment facilities	330	**57**
Total	4,117	**3,808**

Note 4: Cash and amounts due from banks(continued)

4.2 Correspondent banks accounts

	2000	**2001**
Correspondent accounts in non CIS Countries		
-Current accounts	2,237	**1,945**
-Interest bearing accounts	9,077	**7,624**
Correspondent accounts in CIS Countries		
-Current accounts	454	**443**
-Interest bearing accounts	13	**-**
Provision on correspondent banks accounts (CIS)	(452)	**-**
Total correspondent banks accounts	11,329	**10,012**

4.3 Breakdown of correspondent accounts:

Correspondent accounts with foreign except CIS countries

Currency	**Amount in currency '000**	**Exchange rate**	**Amount in 000'GEL**
United States Dollar USD	4,338	2.060	**8,937**
Euro EUR	337	1.818	**613**
Great Britain Pound GBP	5	2.950	**16**
Swiss Franc CHF	2	1.210	**3**
Total non CIS countries			**9,569**

Correspondent accounts with banks in CIS countries

Currency	Amount in currency '000	Exchange rate	Amount in 000'GEL
Georgian Lari GEL	1	1.000	**1**
United States Dollar USD	3	2.060	**6**
Russian Ruble RUR	1,046	0.069	**72**
Euro EUR	200	1.818	**364**
Total CIS countries			**443**

Interest bearing accounts, by currency

Currency	Amount in currency '000	Exchange rate	Amount in '000'GEL
United States Dollar USD	3,700	2.060	**7,622**
Accrued interest			**2**
Total			**7,624**

Note 5: Amounts with the National Bank

	2000	**2001**
Mandatory reserve	8,120	**8,998**
Current account with the National Bank	2,786	**2,600**
Total amount with the National Bank	10,906	**11,598**

The mandatory reserve is not available to finance the bank's day-to-day operations. From September 2001 neither mandatory reserve nor current account with the National Bank bear any interest.

Note 6: Trading Securities

	2000	**2001**
Securities (T-Bills)	476	**5,501**
Accrued interest	10	**307**
Total trading securities	486	**5,808**

Maturity and interest accrued on T-bills.

	Date of purchase	Purchase cost	Maturity date	Annual %
	(1)	*(2)*	*(3)*	*(4)*
T-Bills	3/10/2001	318	03/04/2002	36.00%
		328	03/04/2002	39.60%
		323	03/04/2002	43.20%
T-Bills	10/10/2001	452	09/01/2002	38.70%
		212	09/01/2002	40.50%
T-Bills	22/10/2001	519	17/04/2002	28.80%
T-Bills	14/11/2001	428	15/05/2002	30.60%
		424	15/05/2002	32.40%
		420	15/05/2002	34.20%
T-Bills	21/11/2001	851	22/05/2002	31.50%
		216	22/05/2002	32.40%
		844	22/05/2002	33.30%
T-Bills	28/11/2001	165	29/05/2002	37.80%
Total purchase		**5 501**		
Accrued interest		**307**		
Total trading securities		**5 808**		

T-Bills were issued by the Ministry of Finance of the Republic of Georgia. Under restricted conditions the National Bank of Georgia allows commercial banks to purchase securities. These securities bear different discount interest rates as stated in the above table.

Note 7: Factoring

	2000	**2001**
Factoring	320	**1,439**
Provision for factoring	(149)	**(144)**
Total Factoring	171	**1,295**

Note 8: Loans and Advances to customers

8.1 Analysis by status of borrower:

	2000	**2001**
State and state dependent private organisations	16,718	**11,471**
Private companies and individual business	34,897	**46,724**
Individuals	12,730	**25,972**
Total	64 345	**84,167**
Accrued interest	525	**2,313**
Total loans	64,870	**86,480**
Loan loss provision	(4,755)	**(4 834)**
Total loans, net	60,115	**81,646**

Loans to individuals set out above include pawnshop (Lombard) loans in the amount of 13,628 thousand GEL (2000: 9,346 thousand GEL).

Note 8: Loans and Advances to customers (continued)

8.2 Analysis by currency:

	2000	**2001**
Loans denominated in local currency	5,516	**18,617**
Loans denominated in foreign currency, including:		
- in United State Dollar (USD)	56,252	**61,046**
- in Euro	2,577	**4,504**
Total	64,345	**84,167**
Accrued interest	525	**2,313**
Total loans	64,870	**86,480**
Accumulated loan loss provision	(4,755)	**(4 834)**
Total loans, net	60,115	**81,646**

Note 8: Loans and Advances to customers (continued)

8.3 Analysis by sector:

	2000		**2001**	
	Amount	%	**Amount**	**%**
Construction & real estate	12,995	20.2	**7,436**	**8.84**
Agriculture	396	1	**-**	**-**
Trade & services	13,026	20.2	**20,584**	**24.46**
Industry	14,976	23.3	**14,528**	**17.26**
Consumption	12,730	19.8	**27,513**	**32.69**
Energy and natural resources	7,221	11.2	**7,068**	**8.40**
Others	3,001	4.3	**7,038**	**8.35**
Total	64,345	100	**84,167**	**100**
Accrued interest	525		**2,313**	
Total loans	64,870		**86,480**	
Accumulated loan loss provision	(4,755)		**(4,834)**	
Total loans, net	60,115		**81,646**	

Note 8: Loans and Advances to customers (continued)

	2000		**2001**	
	Amount	% of total portfolio	**Amount**	**% of total portfolio**
Up to 1 month	9,826	15%	**14,361**	**17%**
1 - 3 months	12,983	20%	**12,050**	**14%**
3 - 6 months	17,033	27%	**14,817**	**18%**
6 - 12 months	16,129	25%	**18,229**	**22%**
More than 12 months	8,375	13%	**23,896**	**28%**
Overdue			**814**	**1%**
Total	64,345	100%	**84,167**	**100%**

Note 8.5. Analysis by interest rate range

	0-30%	**30-50%**	**50-70%**	**70-90%**	**Total**
Loans in foreign currencies	50,381	13,889	1,280	-	**65,550**
Loans in local currency	17,123	1,055	425	14	**18,617**
Total	67,504	14,944	1,705	14	**84,167**

Note 8.6 Movement in provision for loans

	2000	**2001**
Balance at beginning of year	1,927	**4,755**
Increase in provisions (Note 26)	4,055	**1,827**
Bad debts written off	(1,227)	**(1,748)**
Balance at end of year	4,755	**4,834**

Note 9: Other assets

	2000	**2001**
Prepaid expenses	93	**53**
Prepayment for fixed assets	254	**6**
Prepaid income tax	127	**401**
Deferred tax asset (Note 28)	539	**69**
Assets for resale	-	**574**
Receivable from security service	-	**59**
Guarantee deposit for trading operations	-	**102**
Provision on other assets losses		**(172)**
Total Other Assets	1,013	**1,092**

Note 10: Investment securities, available for sale

		2000		**2001**	
Name of the Company	Sector	Investment amount	% of capital held	**Investment amount**	**% of capital held**
United Georgian Bank	Banking	19	0.09%	**19**	**0.09%**
Tbilisi Stock Exchange	Finance	33	6.66%	**40**	**6.66%**
Georgian Cards	Bank Cards	323	24.9%	**323**	**24.90%**
SB Invest	Brokers	17	100%	**143**	**100%**
American Academy in Tbilisi	Education	-	-	**103**	**10.75%**
Other investments		1	-	**1**	**-**
Sub-Total		**393**		**629**	
Provision for possible losses		**(17)**		**(103)**	
Total investment securities		**376**		**526**	

The provision in 2001 relates to the investment in American Academy in Tbilisi.

Note 11: Property, plant and equipment

11.1 Gross value of property, plant and equipment

	December 31, 2000	Acquisitions	Disposals	December 31, 2001
Lands & buildings	11,155	454	(101)	**11,508**
Buildings in progress	104	-	(104)	**-**
Computers	2,014	1,076	-	**3,090**
Vehicles	546	198	(41)	**703**
Furniture and fixture	333	67	-	**400**
Other equipment	1,885	620	-	**2,505**
Intangible assets	8	2,215	-	**2,223**
Precious metals & arts	25	1	-	**26**
Total	**16,070**	**4,631**	**(246)**	**20,455**

11.2 Depreciation of property, plant and equipment:

	Accumulated depreciation December 31, 2000	Depreciation for the year	Reversals on disposals	Accumulated depreciation December 31, 2001
Buildings	1,390	195	(18)	**1,567**
Computers	647	415	-	**1062**
Vehicles	217	116	(23)	**310**
Furniture and fixtures	50	20	-	**70**
Other equipment	379	245	-	**624**
Intangible assets	1	-	-	**1**
Total	**2,684**	**990**	**(41)**	**3,634**

LIABILITIES & SHAREHOLDERS FUNDS

Note 12: Deposits from banks

	2000	**2001**
Current accounts		
- in foreign currencies	843	**872**
- in local currency	59	**85**
Time deposits made by banks	-	**1,018**
Credits received from banks	2,765	-
Total	3,667	**1,975**
Accrued interests	54	**17**
Total deposits from banks	3,721	**1,992**

12.1 Time deposits made by banks

Bank	**Amount 000'USD**	**Exchange Rate**	**Amount in local currency**	**Interest Rate**	**Maturity date**
Commercial Bank of Greece (Georgia)	200	2.06	412	18%	11.02.01
Bank Republic	20	2.06	41	18%	22.01.01
United Georgian Bank	110	2.06	227	18%	04.01.01
Georgian Post Bank	50	2.06	103	24%	08.01.01
TBC Bank	114	2.06	235	-	-
Total			**1,018**		
Accrued interest			17		
Total time deposits made by banks			**1,035**		

Note 12: Deposits from Banks (continued)

12.2 Current accounts in foreign currency

Bank's Name	Amount in 000'USD	Exchange rate	December 31 2001 expressed in 000'GEL
Tbiluniversalbank	300	2.06	**618**
United Georgian Bank	58	2.06	**119**
Georgian Post Bank	10	2.06	**21**
Bank Republic	15	2.06	**31**
TBC-Bank	37	2.06	**76**
Other Banks	4	2.06	**7**
Total current accounts in foreign currency			**872**

12.3 Current accounts in national currency

Bank	Amount 000' GEL
Bank Republic	40
United Georgian Bank	20
Georgian Post Bank	23
Other banks	2
Total	**85**

Note 13: Customer deposits

Customer deposits include: current accounts, demand and time deposits

13.1 Analysis by nature of deposits

	2000	**2001**
Current accounts	20,685	**28,953**
Demand deposits	7,120	**7,783**
Time deposits	27,197	**30,039**
Total	55,002	**66,775**
Accrued interest	1,214	**1,250**
Total deposits	56,216	**68,025**

Note 13: Customer deposits (continued)

13.2 Analysis by currencies

	2000	**2001**
Foreign currencies	42,883	**53,556**
Local currency	12,119	**13,219**
Total	55,002	**66,775**
Accrued interest	1,214	**1,250**
Total deposits	56,216	**68,025**

13.3 Analysis by depositors

	2000	**2001**
Legal entities	27,280	**33,441**
Individuals	27,722	**33,334**
Total	55,002	**66,775**
Accrued interest	1,214	**1,250**
Total deposits	56,216	**68,025**

Note 13: Customer deposits (continued)

13.4 Analysis by duration

	2000	**2001**
Current accounts	20,685	**28,953**
Less than one month (demand deposits)	7,120	**7,783**
1 to 3 months	4,205	**1,508**
3 to 6 months	752	**327**
6 to 12 months	22,240	**6,612**
Over 1 year	-	**21,592**
Total	55,002	**66,775**
Accrued interest	1,214	**1,250**
Total	56,216	**68,025**

13.5 Analysis by interest rate range

Interest rate range	**GEL**	**Foreign Currency**	**Total**
0%	12,258	16,695	28,953
1 to 9%	662	8,689	9,351
10 to 13%	72	6,692	6,764
14 to 16%	225	21,477	21,702
17 to 20%	2	1	3
More than 20%	-	2	2
Total	**13,219**	**53,556**	**66,775**

Note 14: Other Liabilities

	2000	**2001**
Accrued expenses	140	**144**
Dividends payable	68	**93**
Bonuses payable	-	**731**
Accounts payable	-	**117**
Miscellaneous liabilities	30	**5**
Total	238	**1,090**

The bonuses paid in 2001 (669 thousand GEL) upon the general assembly of the shareholders' decision made in 2001 and relating to the 2000 profit were debited to the retained earnings in 2001. As a result of the change in accounting method (see note 3 (j)), the provision for the bonuses relating to year 2001 (731 thousand GEL) has been charged in the 2001 income statement. Had this accounting method been used last year, the income before tax for the year 2000 would have been lower by an amount of 669 thousand GEL. Similarly, the opening balances of shareholders' equity accounts would be lower by this amount.

Note 15: Provision for risk

227 thousand GEL relates to the general provision for off-balance sheet commitments.

Note 16: Credits received from international institutions

Institution	Currency	Original Maturity	Amount in currency	Amount in 000'GEL	Interest Rate
EBRD	USD	5 years	3,774	7,774	8.479%
Shorebank	USD	30 months	202	417	6.772%
Shorebank	USD	Revolving	30	60	-
IFC	USD	7 years	1,959	4,036	8.340%
BSTDB-1	USD	Revolving	268	552	6.900%
BSTDB-2	USD	Revolving	1,000	2,060	5.720%
DEG	Euro	6 years	1,333	2,425	9.250%
DEG-HYPO	Euro	6 years	2,000	3,638	7.750%
Commercial Bank of Greece (Georgia)	USD	2 months	300	618	16.000%
Dresdner Bank	Euro	1 year	484	880	10.123%
Total				**22,461**	
Accrued interest				521	
Total				**22,982**	

Above listed credits have a maturity date over one year, except the credit from Commercial Bank of Greece and Dresdner Bank, and should be repaid through a repayment schedule agreed with every financial institution (see Note 30).

Note 17: Share capital

New share issues took place in 2001,where all issued ordinary share capital and share premium were fully paid by DEG.

Shareholders	2000	**2001**
Corporate entities	20.77	**15.16**
Individuals	20.57	**28.06**
International institutions	18	**27.99**
Sub-total	59.34	**71.21**
Other, less than 2%	40.66	**28.79**
Total	100	**100**

The total authorised number of ordinary shares at year-end was 9,855,606 (2000: 8,605,607 shares) with nominal value 1 GEL each. All issued shares are fully paid.

Note 18: Breakdown of interest income

	2000	**2001**
From loans and guaranty operations	19,304	**21,353**
From the mandatory reserve with central bank	606	**381**
On nostro accounts	832	**273**
Other interest income	65	**525**
Total interest income for the year	20,807	**22,532**

Note 19: Interest expenses

19.1 Breakdown of interest expenses

	2000	**2001**
On time deposits	3,663	**3,788**
On credits from local banks	424	**350**
On loans with foreign banks	742	**1,777**
On loro accounts	42	**3**
Other interest expenses	39	**-**
Total interest expenses	4,910	**5,918**

Note 20: Fees and commission income

	2000	**2001**
Letter of credit and guarantees	464	**1,529**
Services on plastic cards	243	**620**
Fees on swift operations and other services	2,826	**3,320**
Fees on Western Union operations	2,797	**3,136**
Total fees and commission income	6,330	**8,605**

Note 21: Fees and commission expenses

	2000	**2001**
Commissions on correspondent accounts	1,233	**1,328**
Commissions on service of electronic cards	655	**1,048**
Commissions on cash withdrawals from the central bank	523	**566**
Other fees and commission expenses	59	**97**
Total fees an commission expenses	2,532	**3,039**

Note 22: Other operating income

	2000	**2001**
From foreign exchange and translation operations	2,124	**2,427**
Sales of fixed assets	-	**123**
Other income	364	**759**
Total	2,488	**3,309**

Note 23: Other operating expenses

	2000	**2001**
Expenses related to blocked deposits	45	**243**
Expenses related to guarantees	33	**124**
Legal costs	24	**115**
Loss resulting from fraud	473	**-**
Other	114	**210**
Total other operating expenses	689	**692**

Note 24: Salaries

The salary expenses are composed of:

	2000	**2001**
Salaries	3,015	**3,851**
Taxes	922	**1,194**
Bonuses and social security	240	**1,364**
Holidays expenses	206	**326**
Total	4,383	**6,735**

The average number of employees during the year was 790 (2000: 869).

Note 25: Administrative expenses

	2000	**2001**
Repairs of fixed assets	1,261	**671**
Telephone and post	441	**703**
Security systems	903	**913**
Rents	831	**953**
Office supplies	1,159	**618**
Small value items	34	**20**
Advertising	173	**373**
Taxation (non-income tax)	728	**719**
Consulting services	180	**-**
Fixed assets depreciation	514	**990**
Other expenditures	788	**788**
Total	7,012	**6,748**

Note 26. Bad and doubtful debts expense

	2000	**2001**
Decrease in provisions on amounts due to other banks	(8)	**-**
Increase in provisions on loans (Note 8.6)	4,055	**1,827**
Decrease in provisions on factoring	**-**	**(5)**
Increase/(decrease) in provisions on off-balance sheet	277	**(170)**
Increase/(decrease) in provisions on other assets	(63)	**172**
Increase/(decrease) in provisions on equity investments	(29)	**86**
Recoveries of loans written off	(984)	**(184)**
Total bad and doubtful debts expense	3,248	**1,726**

Note 27: Taxation

	2000	**2001**
Income tax	(996)	**(1,448)**
Deferred taxation	285	**(470**)
Total	(711)	**(1,918)**

Note 27: Taxation (continued)

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2000	**2001**
Profit before tax	7,033	**9,588**
Theoretical tax charge calculated at a tax rate of 20 % [2000: 10 %]	703	**1,918**
Tax effect of items not assessable for tax purposes	8	**-**
Income tax expense	711	**1,918**

Further information about deferred tax is presented in Note 28.

Note 28: Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 20% (1999: 10%).

Deferred income tax assets and liabilities are attributable to the following items:

	2000	Movement	**2001**
Deferred income tax asset			
Provisions	474	(414)	**60**
Equity investments	-	21	**21**
Accruals	71	(66)	**5**
	545	(459)	**86**
Deferred income tax liabilities			
Fixed assets	6	(11)	**17**
Net deferred tax asset	539	(470)	**69**

Taxation is payable at an effective rate of 20% (2000: 10%) on taxable profits. The standard income tax rate in Georgia is 20%. Under the Georgian Law, the Bank enjoyed a 50% tax exemption from the standard income tax rate due to the foreign equity participation in the Bank. This tax exemption is valid for the five-year period from 1998 to 2001. After May 2001, the Bank is subject to the standard income tax rate for the country.

Note 29: Currency Risk

Concentration of assets, liabilities and off balance sheet items as at December 31,2001

Assets	USD	EURO	GEL	Other	Total
Cash and amounts due from banks	12,619	1,019	3,011	182	**16,831**
Amounts with the National Bank	3	230	11,359	6	**11,598**
Trading securities	-	-	5,808		**5,808**
Factoring	-	-	1,295	-	**1,295**
Loans to clients	60,526	4,504	16,616		**81,646**
Other assets	-	-	1,092	-	**1,092**
Investment securities	-	-	526	-	**526**
Property, plant and equipment	-	-	16,821	-	**16,821**
Total assets	**73,148**	**5,753**	**56,528**	**188**	**135,617**
Liabilities					
Deposits from banks	1,908	-	84	-	**1,992**
Customers deposits	53,556	-	14,469	-	**68,025**
Other liabilities	262	-	828	-	**1,090**
Provision for contingencies	227	-		-	**227**
Long term debts to I.I.	16,039	6,943	-	-	**22,982**
Total liabilities	**71,992**	**6,943**	**15,381**	**-**	**94,316**
Net balance sheet position	**1,156**	**(1,190)**	**41,147**	**188**	**41,301**
Off-balance sheet	**16,759**	**290**	**375**	**-**	**17,424**
December 31,2000					
Total assets	**65,818**	**4,133**	**34,328**	**503**	**104,782**
Total liabilities	**56,594**	**3,641**	**12,217**	**-**	**72,452**
Net balance sheet position	**9,244**	**492**	**22,111**	**503**	**32,330**
Off-balance sheet	**7,661**	**19**	**431**	**-**	**8,111**

Note 30: Liquidity risk
Maturities of assets and liabilities

As at December 31, 2001	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	No maturity	Total
Assets							
Cash and amounts due from banks	16,831	-	-	-	-	-	**16,831**
Amounts with the central bank	2,600	-	-	-	-	8,998	**11,598**
Trading securities	664	-	5,144	-	-	-	**5,808**
Factoring	-	-	-	1,295	-	-	**1,295**
Loans to clients	16,791	11,681	14,182	16,191	22,801	-	**81,646**
Other assets	-	1,092	-	-	-	-	**1,092**
Investment securities	-	-	-	-	-	526	**526**
Property, plant and equipment	-	-	-	-	-	16,821	**16,821**
Total assets	**36,886**	**12,773**	**19,326**	**17,486**	**22,801**	**26,345**	**135,617**
Liabilities							
Deposits from banks	-	-	1,992	-	-	-	**1,992**
Customers deposits	37,986	1,508	327	6,612	21,592		**68,025**
Other liabilities	238	852	-	-	-	-	**1,090**
Provision for contingencies	227	-	-	-	-	-	**227**
Long term debts to I.I.	2,079	-	-		20,903	-	**22,982**
Total liabilities	**40,530**	**2,360**	**2,319**	**6,612**	**42,495**	**-**	**94,316**
Net liquidity gap	**(3,644)**	**10,413**	**17,007**	**10,874**	**(19 694)**	**26,345**	**41,301**
Cumulated liquidity gap	**(3,644)**	**6,769**	**23,776**	**34,650**	**14,956**	**41,301**	
As at December 31, 2000							
Total assets	**31,247**	**13,154**	**15,774**	**15,476**	**7,250**	**21,882**	**104,782**
Total liabilities	**32,248**	**5,332**	**752**	**23,119**	**11,001**	**-**	**72,452**
Net liquidity gap	**(1,001)**	**(7,822)**	**15,022**	**(7,643)**	**(3,751)**	**21,882**	**32,330**
Cumulated liquidity gap	**(1,001)**	**6,821**	**21,843**	**14,200**	**10,449**	**32,330**	

The table above analyses assets and liabilities of the Bank into relevant maturity rankings based on the remaining period at balance sheet date to the contractual maturity date. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rate.

Note 31: Interest rate risk

Interest sensitivity of assets and liabilities

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at December 31, 2001	Up to 3 months	3-12 months	1-5 years	Non-interest bearing	Total
Assets					
Cash and amounts due to from banks	7,622	-	-	9,209	**16,831**
Amounts with the National Bank	-	-	-	11,598	**11,598**
Trading securities	664	5,144	-	-	**5,808**
Factoring		-	1,295	-	**1,295**
Loans to clients	27,945	30,372	22,801	528	**81,646**
Other assets	-	-	-	1,092	**1,092**
Investment securities	-	-	-	526	**526**
Property, plant and equipment	-	-	-	16,821	**16,821**
Total assets	**36,231**	**35,516**	**24,096**	**39,774**	**135,617**
Deposits from banks	-	1,992	-	-	**1,992**
Customers deposits	10,541	6,939	21,592	28,953	**68,025**
Other liabilities	-	-	-	1090	**1090**
Provisions for risk	-	-	-	227	**227**
Long term debts	2,019	-	20,902	61	**22,982**
Total liabilities	**12,560**	**8,931**	**42,494**	**30,331**	**94,316**
Interest sensitivity gap	**23,671**	**26,585**	**(18,398)**	**9,443**	**41,301**
Cumulated gap	**23,671**	**50,256**	**31,858**	**41,301**	
As at December 31, 2000					
Total assets	**30,653**	**30,711**	**7,250**	**36,168**	**104,782**
Total liabilities	**14,144**	**23,871**	**10,632**	**23,805**	**72,452**
Interest sensitivity gap	**16,509**	**6,840**	**(3,382)**	**12,363**	**32,330**
Cumulated gap	**16,509**	**23,349**	**19,967**	**32,330**	

Note 32: Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related Party Transactions

	Directors		Associates	
Deposits	2000	**2001**	2000	**2001**
Amount outstanding at the beginning of the year	60	**107**	-	-
Amount received during the year	59	**215**	-	-
Amount repaid during the year	(11)	**(153)**	-	-
			-	-
Amount outstanding at the end of the year	107	**170**	-	-
Loans				
Amount outstanding at the beginning of the year	12	**281**	-	-
Amount received during the year	431	**745**	-	**140**
Amount repaid during the year	(172)	**(681)**	-	**(140)**
Amount outstanding at the end of the year	271	**344**	-	-
Interest accrued receivable	18	**9**	-	-
Interest paid	16	**86**	-	-
Provision at the end of year	5	**7**	-	-

Note 33: Post balance sheet events

As per the bank there are no significant post balance sheet events, which could negatively affect the financial situation of the bank.

Note 34: Uncertainties

Uncertainty about the future evolution of foreign currencies exchange rates

As disclosed in note 29, substantial part of the bank's lending is denominated in foreign hard currencies (mainly USD & Euro). At the same time, most of the loans are made to Georgian nationals (mainly corporate and individuals) to finance business activities carried out in Georgia or to finance individuals' needs for consumption purposes.

As already experienced in other emerging market economies, in case of a severe devaluation of the local currency, it is possible that this could adversely affect the borrowers' ability to service their debts and could lead to the transformation of the currency risk of the Bank into a solvency risk. In the case of corporate loans to local enterprises, the local currency denominated cash flows expected to be generated by Georgian entrepreneurs from their investments and other business activities carried out within the country, could become insufficient to enable them to

repay their debts to the Bank as these debts would remain indexed to the USD or Euro and would increase in terms of Lari equivalent amounts. The case with consumer loans to Georgian individuals is likely to be the same. The actual revenues, from which the loans are to be repaid, including salaries and wages, will remain denominated in the devaluing local currency, which might be insufficient to service hard currency denominated debts. This in turn might cause overall default on these loans of the Bank.

Similarly, local currency equivalent of the USD or Euro denominated liabilities of the Bank toward third parties would increase in proportion of the eventual Georgian Lari devaluation. It should be noted for instance that whilst the exchange rate of the Georgian Lari against the USD was 2.06 as at 1st January 2002, it increased by 8% up to 2.224 as of 25 February 2002. A further increase in 2002 of the foreign currency exchange rates, that is out of Bank's management control, would lead the Bank, as well as any other Georgian Banks, to reassess its credit risk accordingly. This risk would only be lowered if the revenues and cash flows of the borrowers were themselves generated in foreign hard currencies and would not be affected symmetrically.

Operating environment and business risks

The bank's operation results are dependent upon its ability to attract deposits, grant quality loans, control operating expenses and effectively manage risk. The primary risk to which the Bank is exposed include credit, interest rate, liquidity and foreign exchange risk. The Bank is also exposed to significant risks due to the nature of its operating environment. Its success is dependent upon on the general economic conditions of Georgia, activities of competitors and other factors, which may be outside the control of the Bank.

Uncertainty in the country

There is a considerable degree of uncertainty in Georgia surrounding the continued success of domestic economy policy. Furthermore, the recoverability of the Bank's loans and advances to domestic clients as well as their financial situations and, consequently, their ability to repay the loans largely depends on the future direction of the economic policy and takes certain steps, such as diversification of the loan portfolio by economy sectors, regions and type of loans, in order to avoid any potential losses.

The management of the Bank has made its best estimate on recoverability and classification of recorded assets and liabilities. While management of the Bank believes that adjusted amounts represent their net realisable value and that any further deterioration in the economic or political stability of the country will not have a material effect on the operations of the Bank, this cannot be predicted with absolute certainty and the future operation of the Bank may continue to be affected by these economic policies of the government.

Note 35: Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by Management using available market information and appropriate valuation methodologies, where they exist. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

Management also believes that it is difficult to estimate the fair value of loans, term deposits, and equity investments. These instruments are not currently traded in the Georgian financial markets, and an objective estimate of their fair value is not available. The instability of the interest rate and exchange rate environment significantly affects the fair value of these financial instruments. Some financial institutions have been unwilling to lend to or invest in Georgian companies, thus limiting information, which might otherwise be available to Management to assist in estimating fair values. Because of these factors, Management does not believe that an objective basis for the fair value of loans, term deposits, and equity investments can be obtained with sufficient reliability to provide meaningful information to users.