BANK OF GEORGIA
Joint Stock Company
3 Pushkin Street, 380005, Tbilisi,
Georgia

Financial Statements
Prepared under International Financial Reporting Standards
for the year ended 31 December 2002



BANK OF GEORGIA
Annual report
for the year ended 31 December 2002

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK OF GEORGIA

Bank of Georgia
3, Puskin Street
380007 Tbilisi
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We have audited the accompanying balance sheet of **Bank of Georgia** as of 31 December 2002, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Rainer Stawinoga
Partner

Paris, the 27th of February 2003

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Income statement

	Notes	Year ended 31 December	
		2002	**2001**
Interest income	1	25,119	22,532
Interest expense	1	(7,184)	(5,918)
Net interest income		**17,935**	**16,614**
Fee and commission income	2	8,706	8,605
Fee and commission expense	2	(2,555)	(3,163)
Net fee and commission income		**6,151**	**5,442**
Other operating income	3	2,783	3,309
Operating income		**26,869**	**25,365**
Other operating expenses	4	(395)	(568)
Salaries expenses	5	(7,731)	(6,735)
Administrative expenses	6	(8,775)	(6,748)
Impairment losses on loans and other assets	23	(1,473)	(1,726)
Operating expense		**(18,374)**	**(15,777)**
Extraordinary income	7	1,389	-
Extraordinary expense	7	(1,389)	-
Profit before tax		**8,495**	**9,588**
Income tax expense	8	(1,391)	(1,918)
Profit after taxation		**7,104**	**7,670**
Earnings per share		**0.72**	**0.78**

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

Balance sheet

	Notes	As at 31 December	
		2002	2001
ASSETS			
Cash and amounts due from banks	9	26,388	16,831
Amounts with the National Bank of Georgia	10	20,350	11,598
Treasury bills	11	9,395	5,808
Factoring	12	-	1,295
Loans and advances to customers	13	98,362	81,646
Investment securities available-for-sale	15	588	526
Property, plant and equipment	16	15,942	14,599
Intangible assets	17	2,380	2,222
Deferred tax assets	23	-	69
Other assets	18	3,300	1,023
Total assets		**176,705**	**135,617**
LIABILITIES			
Due to other banks	19	3,042	1,992
Due to customers	20	98,207	68,025
Other liabilities	21	847	1,090
Provisions for contingencies	22	142	227
Debts to international institutions and banks	23	27,786	22,982
Deferred tax liabilities	24	51	-
Total liabilities		130,075	94,316
SHAREHOLDERS' EQUITY			
Ordinary shares	25	9,856	9,856
Share premium		4,530	4,530
Retained earnings		26,669	20,915
Revaluation reserves		5,575	6,000
Total shareholders' equity		46,630	41,301
Total equity and liabilities		**176,705**	**135,617**

These financial statements have been approved for issue by the Board of Directors on 17th January 2003.

Elguja Silagadze General director

Zurab Akhalaia Finance director

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

Statement of changes in shareholders' equity

	Share capital	Share premium	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2001	**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
Dividend for 2000	-	-	-	(2,037)	(2,037)
Bonuses paid	-	-	-	(671)	(671)
Balance at 31 December 2001	**9,856**	**4,530**	**6,000**	**20,915**	**41,301**
Issue of share capital	-	-	-	-	-
Net profit	-	-	-	7,104	7,104
Dividend for 2001	-	-	-	(1,775)	(1,775)
Transfer	-	-	(425)	425	-
Balance at 31 December 2002	**9,856**	**4,530**	**5,575**	**26,669**	**46,630**

Transfer from revaluation reserves to the retained earnings corresponds to the amount of statutory revaluation coming on disposed buildings during the year 2002.

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

Cash flow statement

	Notes	Year ended 31 December	
		2002	**2001**
Cash flow from operating activities			
Interest Income Receipt		25,188	20,742
Interest payments		(7,055)	(5,251)
Fee and commission receipts		8,706	8,605
Fee and commission payments		(2,530)	(3,039)
Net trading and other income		2,501	3,177
Other operating expenses		(692)	(642)
Cash payments to employees and suppliers		(7,854)	(7,405)
Administration Expenses		(7,146)	(5,758)
Recoveries on loans previously written-off		1,632	184
Income tax paid		(1,994)	(1,849)
Dividend receipts		-	17
Cash flows from operating profits before changes in operating assets and liabilities		**10,756**	**8,782**
Changes in operating assets and liabilities			
Net increase in obligatory reserve at NBG		(3,836)	(878)
Net increase in trading securities		(3,206)	(5,144)
Net (increase)/decrease in factoring		1,439	(1,119)
Net increase in loans to customers		(19,647)	(21,422)
Net increase in other assets		(2,704)	(319)
Net increase/(decrease) in deposits from banks		1,051	(1,692)
Net increase in amounts owed to other depositors		29,959	11,773
Net increase/(decrease) in other liabilities		(41)	851
Net increase in debts to international institutions		4,898	10,581
Net cash from operating activities		**18,669**	**1,412**
Cash flows from investing activities			
Purchase of property and equipment, (net of sales)		(3,026)	(4,631)
(Purchase)/sell of investments		(62)	(236)
Net cash used in investing activities		**(3,088)**	**(4,867)**
Cash flows from investing activities			
Issue of ordinary shares		-	1,250
Increase in share premium		-	2,759
Dividends paid		(1,775)	(2,062)
Net cash from financing activities		**(1,775)**	**1,947**
Extraordinary income		1,389	-
Extraordinary expense		(1,389)	
Net increase/(decrease) in cash and cash equivalents		**13,806**	**(1,508)**
Cash and cash equivalents at the beginning of year		20,094	21,602
Cash and cash equivalents at the end of year	26	**33,900**	**20,094**

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

Accounting policies

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

1. Basis of presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention. The Bank maintains its accounting records in accordance with the regulation of the National Bank of Georgia (NBG).

The financial statements have been prepared from those accounting records settled as at 31 December 2002 and authorised for issue by the executive management board at 10 January 2003. The necessary adjustments were made on above-mentioned accounts in order to comply with IFRS issued by the International Accounting Standards Board.

The figures in the financial statements are presented in thousand Georgian Lari (GEL), the local currency of Georgia, unless otherwise stated.

In 2002, the Bank accomplished the implementation of new accounting software for its branch network. Consequently the classification of other income, other expenses and administrative expenses were slightly changed compared to 2001. For better comparison purposes, 2001 figures for these items are reclassified according to the new presentation. These changes have no impact on the net profit for the year.

2. 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 loss for the year 2002 is 559 thousand GEL.
The exchange rates for the US Dollar and for the Euro against the Georgian Lari evolved in 2002 as follows:

	GEL/USD	GEL/EUR
At 1 January 2002	2.06	1.82
Highest (in July 2002)	2.24	2.23
Average Exchange Rate	2.19	2.07
Lowest (in January 2002)	2.06	1.82
At 31 December 2002	2.09	2.18

2. Summary of significant accounting policies (continued)

(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, from loans granted and from plastic card operations. 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.

(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 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, the 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) The Bank is the lessee

To date, the lessees entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease rentals

(g) Property, plant and equipment

All property, plant and equipment are stated at historical cost or revalue 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 spread 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

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. Any revaluation of disposed fixed asset was transferred to retained earnings. Repairs and renewals are charged to the income statement when the expenditure is incurred. All items purchased in 2002 and having value of less than 500 GEL is expensed in the income statement for the year 2002. The threshold for the recognition of small value assets is 500 GEL.

(h Intangible assets

Intangible assets mainly include computer software development costs. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications, is recognized as a capital improvement an added to the original cost of software. Computer software development costs recognised as assets are amortised, from the moment of the full completion using the straight-line-method over their useful life, not exceeding 5 year.

(i) 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% of an average net book value of total fixed assets.

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.

(j) 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 National Bank of Georgia, treasury bills and other eligible bills, amounts due from other banks and trading securities.

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NOTE 1: NET INTEREST INCOME

	2002	2001
Interest income		
Cash and short-term funds	49	273
Treasury bills	1,924	525
Loans and advances	22,675	21,353
Mandatory reserve deposits with the National Bank of Georgia	471	381
	25,119	**22,532**
Interest expense		
Banks and customers deposits	4,648	3,788
Borrowed funds from local banks	404	350
Borrowed funds from foreign banks	2,115	1,777
Loro accounts	17	3
	7,184	**5,918**

With a view to improve the interest earning assets diversification and extra-liquid asset placements, the Bank increased its average treasury bills portfolio in 2002 to 9,395 thousands GEL (2001: 5,808 thousand GEL).

Although the average interest rate on deposits from customers decreased by 2% during the year, the total deposits increased substantially.

NOTE 2: FEES AND COMMISSIONS

	2002	2001
Fee and commission income		
Guaranties and letter of credit operations	945	798
Services on plastic cards	847	737
Money transfer systems	2,773	3,223
Cash operations and transportation	2,925	2,509
Cash transfers to and from clients' accounts	1,064	1,101
Others	152	237
	8,706	**8,605**
Fee and commission expense		
Guarantees	252	124
Cash transfers to and from clients' accounts	292	197
Money transfer systems	109	735
Consulting services	412	280
Services on plastic cards	732	1,067
Cash operations and transportation	616	663
Others	142	97
	2,555	**3,163**

NOTE 2: FEES AND COMMISSIONS (CONTINUED)

In 2002 the Bank negotiated with plastic card and money transfer operators a lower commission level. As a consequence more competitive rate were offered to the customers and the volume of transactions substantially increased compared to 2001.

NOTE 3: OTHER OPERATING INCOME

	2002	2001
Foreign exchange operations and conversions	2,582	2,427
Gains on sales of fixed assets	91	123
Other income	110	759
	2,783	**3,309**

NOTE 4: OTHER OPERATING EXPENSES

	2002	2001
Remuneration of blocked deposits	62	243
Legal costs	48	115
Other	285	210
	395	**568**

NOTE 5: STAFF COSTS

	2002	2001
Wages and salaries	4,965	4,177
Social security costs	1,405	1,194
Bonuses and other benefits	1,361	1,364
	7,731	**6,735**

The average number of employees during the year was 812 (790 in 2001).

NOTE 6: ADMINISTRATIVE EXPENSES

	2002	2001
Repair of fixed assets	805	671
Telephone and post	664	703
Security systems	940	913
Rents	1,327	953
Office supplies	926	907
Small value items	8	20
Advertising	716	373
Taxation (non income tax)	1,127	808
Fixed assets depreciation	1,402	990
Others	860	410
	8,775	**6,748**

NOTE 6: ADMINISTRATIVE EXPENSES (CONTINUED)

In 2002, the Bank signed the operating lease agreements for new service centres opened in different regions of Georgia during the year.

NOTE 7: EXTRAORDINARY ITEMS

At the end of April of 2002 the earthquake significantly damaged the Head Office building situated in the old part of Tbilisi. There was a substantial strengthening of the foundation conveyed with the internal extensive repair works. The cost of repair works was fully reimbursed by the insurance company.

NOTE 8: INCOME TAX EXPENSE

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

	2002	2001
Profit before tax	**8,494**	**9,588**
Tax calculated at a tax rate of 20% (20% in 2001)	1,699	1,918
Tax credits granted for 2001	(308)	-
Income tax expense	**1,391**	**1,918**

There are no items not assessable for tax purposes neither in 2002 nor in 2001.

	2002	2001
Statutory tax expense	1,579	1,448
Tax credits granted for 2001	(308)	-
Effect of deferred taxation *	120	470
Income tax expense	**1,391**	**1,918**

*Further details on deferred taxation in note 24.

*In April 2002, the tax authorities decided to allow the Georgian banks, concerned by foreign investments, to recalculate on pro-rata basis the part of 2001 profit under privileged conditions (10% income tax rate instead of 20%). As a consequence, the Bank enjoyed 308 thousand GEL allowance on 2002 income tax.

NOTE 9: CASH AND AMOUNTS DUE FROM BANKS

	2002	2001
Cash in hand	11,277	6,819
Correspondent banks accounts and placements with other banks	15,111	10,012
	26,388	**16,831**

9.1. Cash in hand

	2002	2001
National Currency	4,063	3,011
Foreign Currencies	7,214	3,808
	11,277	**6,819**

9.2. Correspondent banks accounts

	2002	2001
Correspondent account in non CIS countries		
-Current accounts	2,936	1,945
-Interest bearing accounts	8,473	7,624
	11,409	**9,569**
Correspondent accounts in CIS countries		
-Current accounts	3,702	443
-Interest bearing accounts	-	-
	3,702	**443**
	15,111	**10,012**

Interest bearing accounts in non-CIS countries includes a blocked deposit of 209 thousand GEL which is not available for day- to-day operations.

The correspondent banks in non-CIS countries include the world leading banks.

NOTE 9: CASH AND AMOUNTS DUE FROM BANKS (CONTINUED)

9.3 Breakdown of the correspondent accounts

Correspondent accounts with foreign banks except CIS countries

Currency	Amount	Exchange rate	Amount in GEL
USD	5,034	2.090	10,521
EUR	374	2.176	815
GBP	17	3.351	58
CHF	10	1.498	15
			11,409

Correspondent accounts with banks in CIS countries

Currency	Amount	Exchange rate	Amount in GEL
GEL	1	1.000	1
USD	1,760	2.090	3,679
RUR	346	0.066	22
			3,702

NOTE 10: AMOUNTS WITH THE NATIONAL BANK OF GEORGIA

	2002	2001
Mandatory reserve	12,834	8,998
Current accounts with the National Bank of Georgia	7,516	2,600
	20,350	**11,598**

The National Bank of Georgia requires from commercial banks to maintain their mandatory reserve to the level of 14% of attracted funds.

The mandatory reserve is not available to finance the bank's day-to-day operations. In 2002,the mandatory reserve bore a 4.5% annual interest.

NOTE 11: TREASURY BILLS

	2002	2001
Treasury bills	8,707	5,501
Accrued interest	688	307
	9,395	**5,808**

NOTE 11: TREASURY BILLS (CONTINUED)

Treasury-bills are issued by the Ministry of Finance of Georgia. Under restricted conditions the National Bank of Georgia allows commercial banks to purchase these securities under different rates and maturities, as stated in the table bellow.
The security market in Georgia is not sufficiently active to allow the estimation of their fair value.

	Purchase date	Purchase cost	Maturity date	Annual %
T-Bills	07.08.2002	192	05.02.2003	48.0%
T-Bills	14.08.2002	242	12.02.2003	48.0%
		359		42.0%
		119		42.0%
T-Bills	20.08.2002	1,373	12.02.2003	42.0%
T-Bills	02.10.2002	541	08.01.2003	40.8%
		719		42.0%
		537		44.0%
T-Bills	02.10.2002	77	12.02.2003	40.0%
T-Bills	23.10.2002	1,000	22.01.2003	44.0%
T-Bills	06.11.2002	137	19.02.2003	32.0%
		274		33.0%
		273		34.0%
		363		35.0%
		453		36.0%
T-Bills	13.11.2002	264	05.03.2003	44.0%
T-Bills	02.12.2002	600	12.03.2003	44.0%
T-Bills	27.12.2002	897	23.04.2003	36.0%
		230	30.04.2003	45.0%
		57	23.04.2003	45.0%
Total purchase		8, 707		
Accrued interest		688		
Total		**9,395**		

NOTE 12: FACTORING

	2002	2001
Factoring	-	1,439
Provision	-	(144)
	-	**1,295**

The factoring transactions as at the end of 2001 were related to the accounts receivables purchased by the Bank from the legal entity with 30% discount. During the year 2002, the amount receivable from those transactions was fully recovered and the provision was reversed in the income statement.

NOTE 13: LOANS AND ADVANCES TO CUSTOMERS

13.1 Analysis by status of borrower

	2002	2001
State and state dependent private organisations	7,403	11,471
Private companies and individual business	62,271	46,724
Individuals	32,400	25,972
	102,074	**84,167**
Accrued interest	1,858	2,313
Loan loss provision	(5,570)	(4,834)
	98,362	**81,646**

13.2 Analysis by currency

	2002	2001
Loans denominated in local currency	16,598	18,617
Loans denominated in foreign currency, including:		
- in United States Dollar(USD)	74,456	61,046
- in Euro	11,020	4,504
	102,074	**84,167**

Loans to individuals set out above include pawnshop loans in the amount of 24,270 thousand GEL (13,628 in 2001).

NOTE 13: LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

13.3 Analysis by sector

	2002		2001	
	Amount	**% of total portfolio**	**Amount**	**% of total portfolio**
Construction & real estate	6,725	6.6%	7,436	8.8%
Agriculture	94	0.0%	-	-
Trade & Services	31,237	30.6%	20,584	24.5%
Industry	14,253	14.0%	14,528	17.3%
Consumption	40,487	39.7%	27,513	32.7%
Energy and natural resources	5,607	5.5%	7,068	8.4%
Others	3,671	3.6%	7,038	8.3%
Total	**102,074**	**100%**	**84,167**	**100%**

13.4 Analysis by maturity

	2002		2001	
	Amount	**% of total portfolio**	**Amount**	**% of total portfolio**
Up to 3 months	32,691	32.1%	26,411	31.4%
3-6 months	6,228	6.1%	14,817	17.6%
6-12 months	18,916	18.5%	18,229	21.7%
More than 12 months	41,683	40.8%	23,896	28.4%
Overdue	2,556	2.5%	814	0.9%
Total	**102,074**	**100%**	**84,167**	**100%**

Overdue in the above maturity table is classified as such if the repayment of the principal amount is overdue more than thirty days.

13.5 Analysis by interest rate range

	12-30%	**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
Balance at 31 December 2001	**67,504**	**14,944**	**1,705**	**14**	**84,167**
Loans in foreign currencies	67,843	17,602	6	25	85,476
Loans in local currency	13,610	2,217	658	113	16,598
Balance at 31 December 2002	**81,453**	**19,819**	**664**	**138**	**102,074**

NOTE 14: ALLOWANCE ON LOANS AND ADVANCES

	2002	2001
Balance at the beginning of year	4,834	4,755
Provision for loan impairment	1,291	1,827
Bad debts written off	(555)	(1,748)
Balance at the end of the year	**5,570**	**4,834**

NOTE 15: INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Name of the Company	Sector	2002 Investment in GEL	2002 share	2001 Investment in GEL	2001 share
United Georgian Bank	Banking	19	0.09%	19	0.04%
Tbilisi Stock Exchange	Finance	40	6.66%	40	6.66%
Georgian Cards	Bank Cards	385	19.06%	323	24.90%
SB Invest	Brokers	143	100%	143	100%
American Academy in Tbilisi	Education	103	10.75%	103	10.75%
Other Investments		1	20.00%	1	20.00%
Gross investment		**691**		**629**	
Provision for possible losses		(103)		(103)	
Total investments, net		**588**		**526**	

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

During the year 2002, the Company "Georgian Cards" increased its shareholders' capital ". The Bank acquired additional 57,944 shares at a price of 1.07 GEL per share, including a par value of 1 GEL and a share premium of 0,07 GEL.

NOTE 16: PROPERTY, PLANT AND EQUIPMENT

16.1 Gross value of property and equipment

	December 31.12.2001	Purchases	Disposals	December 31.12.2002
Lands & buildings	11,508	334	(504)	11,338
Leasehold improvement	-	490	-	490
Computers	3,090	375	(123)	3,342
Vehicles	703	196	(225)	674
Furniture, equipment and other	2,905	1,532		4,437
Arts and collectibles	26	23		49
	18,232	**2,950**	**(729)**	**20,330**

The last free revaluation of buildings was implemented by an independent expert in 1996. The Bank was planning to revalue its buildings in 2002, in order to adjust the book value to the market value.

Following the earthquake that occurred in Tbilisi in April 2002, the building of the head office was significantly damaged. The repair works, totally financed by the insurance company, lasted until December 2002. As a consequence, the management of the Bank decided to postpone the revaluation process until 2003.

16.2 Accumulated depreciation

	Accumulated depreciation as at 31.12.2001	Depreciation for the year	Reversals on disposals	Accumulated depreciation as at 31.12.2002
Buildings	1,567	186	(99)	1,654
Leasehold improvement	-	40	-	40
Computers	1,062	439	(113)	1,388
Vehicles	310	87	(122)	275
Furniture, equipment and other	694	337	-	1,031
	3,633	**1,089**	**(334)**	**4,388**

NOTE 16: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

16.3 Net value of property and equipment

	Buildings	Leasehold Improv.	Computers	Vehicles	Furniture, Equipment and other	Arts and collections	Total
At 31 December 2001							
Cost	11,508	-	3,090	703	2,905	26	18,232
Accumulated depreciation	(1,567)	-	(1,062)	(310)	(694)	-	(3,633)
Net book amount	9,941	-	2,028	393	2,211	26	14,599
At 31 December 2002							
Cost	11,338	490	3,340	674	4,440	49	20,331
Accumulated depreciation	(1,654)	(40)	(1,388)	(275)	(1,032)	-	(4,389)
Net book value	**9,684**	**450**	**1,952**	**399**	**3,408**	**49**	**15,942**

NOTE 17: INTANGIBLE ASSETS

	2002	**2001**
Opening net book amount	2,222	7
Acquisition	471	2,215
Amortisation charge*	(313)	-
	2,380	2,222
Cost	2,694	2,223
Accumulated amortisation	(314)	(1)
Closing net book amount	2,380	2,222

The implementation of the operational software "Va bank", with book value of 2,495 thousand GEL, was accomplished in all branches by the end of May 2002. From June 2002 onwards, the depreciation is calculated under the straight-line method, based on a 5 year-estimated useful life.

NOTE 18: OTHER ASSETS

	2002	**2001**
Prepaid expenses	44	53
Prepayment for fixed assets	-	6
Prepaid income tax	621	401
Other tax prepayments	454	-
Real estate for sale	1,628	574
Receivable from security service	-	59
Receivable from sold buildings	1,132	-
Guarantee deposit for trading operations	20	102
Provision on other assets	(599)	(172)
	3,300	**1,023**

NOTE 18: OTHER ASSETS (CONTINUED)

Real estate for sale refers to the collaterals recovered from former loans already written off. They are stated at a book value corresponding to the amount of the loans originally granted. However, a provision is recorded when the Bank anticipates that it will not be able to recover these amounts through the sale of the real estate. Provision on other asset includes allowances for possible losses on real estate for sale and receivables from sold buildings.

NOTE 19: DUE TO OTHER BANKS

	2002	2001
Current Accounts		
- in foreign currency	227	872
- in local currency	81	85
Time deposits made by banks	2,716	1,018
	3,024	1,975
Accrued interest	18	17
	3,042	**1,992**

19.1 Time deposits made by banks

Amount in USD	Exchange Rate	Amount in GEL	Interest Rate	Maturity date
1,000	2.09	2,090	4%	03.03.03
20	2.09	42	4%	11.02.03
115	2.09	240	4%	22.09.03
114	2.09	239	18%	04.09.03
50	2.09	105	4%	16.09.03
		2,716		

All time deposits made by the Georgian banks are USD denominated.

NOTE 20: DUE TO CUSTOMERS

20.1 Analysis by depositors

	2002	2001
Private corporate companies	45,447	33,441
Individuals	51,287	33,334
	96,734	66,775
Accrued interest	1,473	1,250
	98,207	**68,025**

NOTE 20: DUE TO CUSTOMERS (CONTINUED)

20.2 Analysis by nature of deposit

	2002	2001
Current accounts	46,460	28,953
Demand deposits	6,868	7,783
Time deposits	43,406	30,039
	96,734	66,775
Accrued interest	1,473	1,250
	98,207	**68,025**

20.3 Analysis by currency

	2002	2001
Foreign currency	80,476	53,556
Lari	16,258	13,219
	96,734	**66,775**
Accrued interest	1,473	1,250
	98,207	**68,025**

20.4 Analysis by duration

	2002	2001
Current accounts	46,460	28,953
Less than one month (demand deposits)	6,868	6,536
1 to 3 months	7,014	1,508
3 to 6 months	3,488	327
6 to 12 months	23,813	6,612
Over 1 year	9,091	22,839
	96,734	66,775
Accrued interest	1,473	1,250
	98,207	**68,025**

NOTE 20: DUE TO CUSTOMERS (CONTINUED)

20.5 Analysis by interest rate range

Interest rate	GEL	Foreign Currency	Total
0%	14,579	31,881	46,460
1 to 9%	1,157	14,376	15,533
10 to 13%	324	30,445	30,769
14 to 16%	198	3,772	3,970
17 to 20%	-	-	-
More than 20%	-	2	2
	16,258	**80,476**	**96,734**

NOTE 21: OTHER LIABILITIES

	2002	2001
Accrued expenses	-	144
Dividends payable	93	93
Bonuses payable	608	731
Accounts payable	143	117
Miscellaneous liabilities	3	5
	847	**1,090**

NOTE 22: DEBTS TO INTERNATIONAL FINANCIAL INSTITUTIONS AND BANKS

	2002	2001
International institutions	17,243	10,099
Non-resident banks	8,384	11,744
Resident banks	1,732	618
	27,359	22,461
Accrued interest	427	521
	27,786	**22,982**

Note 22.1 Debts to International Institutions

Institution	Currency	Date of agreement signing	Maturity	Amount in currency	Amount in GEL	Interest Rate
IFC	USD	13.04.2000	7 year	2,003	4,185	7.0790%
DEG	EUR	16.09.1999	6 year	1,000	2,176	9.0625%
DEG-HYPO	EUR	30.11.2000	7 year	2,000	4,353	7.5625%
DEG-III	EUR	26.04.2002	7 year	3,000	6,529	7.3125%
Total					17,243	
Accrued interest					236	
					17,479	

NOTE 22: DEBTS TO INTERNATIONAL FINANCIAL INSTITUTIONS AND BANKS (CONTINUED)

Note 22.2 Debts to local banks

Bank	Currency	Date of agreement signing	Maturity	Amount in currency	Amount in GEL	Interest Rate
MBG Bank	EUR	24.12.2002	29.01.2003	400	871	12.50%
MBG Bank	EUR	18.12.2002	03.01.2003	300	652	2.00%
TBC Bank	USD	08.04.2002	06.01.2003	100	209	14.00%
Total					1,732	
Accrued interest					4	
					1,736	

Note 22.3 Debts to non-resident banks

Institution	Currency	Date of agreement signing	Maturity	Amount in currency	Amount in GEL	Interest Rate
EBRD	USD	16.07.1998	5 year	2,264	4,733	6.6363%
BSTDB-I	USD	17.07.2000	REVO	947	1,979	6.3730%
BSTDB-II	USD	02.04.2001	02.04.2003	800	1,672	5.7200%
Total					8,384	
Accrued interest					187	
					8,571	

NOTE 23: MOVEMENTS IN PROVISIONS

	2001	Change in provisions, net	Reversals on written off assets	2002
Loans to customers	4,834	1,291	(555)	5,570
Equity investments	103	-	-	103
Factoring	144	(144)	-	-
Other assets	172	750	(323)	599
Off balance sheet items	227	(85)		142
	5,480	**1,812**	**(878)**	**6,414**

23.1 Provision expense

	2002	2001
Change in provisions, net	1,812	1,910
Recoveries of loans written off	(339)	(184)
	1,473	**1,726**

NOTE 24: DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 20% (20% in 2001).

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

Deferred income tax asset	**2001**	**Movement**	**2002**
Provisions	60	(41)	19
Equity investments	21	(21)	-
Accruals	5	(5)	-
	86	(67)	19
Deferred income tax liabilities			
Fixed asset depreciation	(17)	(53)	(70)
Net deferred tax asset (liability)	**69**	**(120)**	**(51)**

NOTE 25: ORDINARY SHARES

Shareholders	**2002**	**2001**
Corporate	15.16%	15.16%
Individuals	28.06%	28.06%
International Institutions	27.99%	27.99%
Other, less than 2%	28.79%	28.79%
	100%	**100%**

The total authorised number of ordinary shares at year-end was 9,855,606 (9,855,606 in 2001) with nominal par value 1 GEL each. All issued shares are fully paid and have same voting rights and same rights on dividends.

NOTE 26: CASH AND CASH EQUIVALENTS

	2002	**2001**
Current account with NBG	7,516	2,600
Correspondent account	15,107	10,013
Cash	11,277	6,818
Treasury bills	-	664
	33,900	**20,094**

NOTE 27: CURRENCY RISK

As at 31 December 2002	USD	EURO	GEL	Other	Total
Assets					
Cash and amounts due from banks	19,407	2,632	4,063	286	26,388
Amounts with the National Bank of Georgia	1,594	4	18,751	1	20,350
Treasury bills	-	-	9,395	-	9,395
Factoring	-	-	-	-	-
Loans and advances to customers	72,332	10,645	15,385	-	98,362
Investments securities -available-for-sale	-	-	588	-	588
Fixed assets	-	-	18,322	-	18,322
Other assets	1,132	-	2,168	-	3,300
Total assets	**94,465**	**13,281**	**68,672**	**287**	**176,705**
Liabilities					
Due to other banks	2,961	-	81	-	3,042
Due to customers	81,826	-	16,381	-	98,207
Other liabilities	143	-	704	-	847
Provision for contingencies	142	-	-	-	142
Debts to Int. Institutions and banks	13,048	14,738	-	-	27,786
Deferred tax liability			51		51
Total Liabilities	**98,120**	**14,738**	**17,217**	**-**	**130,075**
Net balance sheet position	**(3,655)**	**(1,457)**	**51,455**	**287**	**46,630**
Off balance sheet	**4,533**	**307**	**2,116**	**-**	**6,956**
As at 31 December 2001					
Total assets	73,148	5,753	56,528	188	135,617
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 position	7,661	19	431	-	8,111

As the Georgian economy is strongly influenced by the “US Dollar”, the exposure of the Bank to the US Dollar is still high. Further, given the currency exchange market in Georgia, the “GEL/Euro” exchange parity derives indirectly and to some extent from the combined “GEL/USD” and “USD/Euro” exchange parities.

NOTE 28: MATURITIES OF ASSETS AND LIABILITIES

As at 31 December 2002	Demand up to1 month	1-3 months	3-6 months	6-12 months	Over 1 year	No maturity / overdue	Total
Assets							
Cash and amounts due from banks	26,388	-	-	-	-	-	26,388
Amounts with the NBG	7,516	-	-	-	-	12,834	20,350
Treasury bills	3,040	6,355	-	-	-	-	9,395
Factoring	-	-	-	-	-	-	-
Loans and advances to customers	12,778	15,433	6,241	17,407	41,442	5,061	98,362
Investments securities available-for-sale	-	-	-	-	-	588	588
Fixed assets	-	1	6	39	18,276	-	18,322
Other assets	-	499	-	-	2,801	-	3,300
Total assets	**49,722**	**22,288**	**6,247**	**17,446**	**62,519**	**18,483**	**176,705**
Liabilities							
Due to other banks	81	2,961	-	-	-	-	3,042
Due to customers	54,801	7,014	3,488	23,813	9,091	-	98,207
Other liabilities	-	-	-	847		-	847
Provision for contingencies	-	-	-	-	142	-	142
Debts to Int. Inst and banks	4,351	1,673	2,564	2,375	16,823	-	27,786
Deferred tax liability	-	-	-	-	51	-	51
Total Liabilities	**59,233**	**11,648**	**6,052**	**27,035**	**26,107**	**-**	**130,075**
Net liquidity gap	**(9,511)**	**10,640**	**195**	**(9,589)**	**36,412**	**18,483**	**46,630**
Cumulated liquidity gap	**(9,511)**	**1,129**	**1,324**	**(8,265)**	**28,147**	**46,630**	
As at 31 December 2001							
Total assets	36,886	12,773	19,326	17,486	22,801	26,345	135,617
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**	

The above table 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 rates.

NOTE 29: 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 31 December 2002	Up to 3 months	3-12 months	1-5 years	Non-interest Bearing	Total
Assets					
Cash and amounts due to from banks	8,260	-	-	18,128	26,388
Amounts with the National Bank of Georgia	12,834	-	-	7,516	20,350
Treasury bills	9,395	-	-	-	9,395
Factoring	-	-	-	-	-
Loans and advances to customers	28,162	22,699	45,641	1,860	98,362
Other assets	-	-	1,021	2,279	3,300
Investments securities available-for-sale	-	-	588	-	588
Property, plant and equipment	-	-	-	18,322	18,322
Total assets	**58,651**	**22,699**	**47,250**	**48,105**	**176,705**
Due to other banks	2,090	643	-	309	3,042
Due to customers	13,882	27,301	9,091	47,933	98,207
Other liabilities	-	-	-	847	847
Provision for contingencies	-	-	142	-	142
Debts to Int. Institutions and banks	5,597	4,940	16,823	426	27,786
Deferred tax liability	-	-	-	51	51
Total liabilities	**21,569**	**32,884**	**26,056**	**49,566**	**130,075**
Interest sensitivity gap	**37,082**	**(10,185)**	**21,194**	**(1,461)**	**46,630**
Cumulated gap	**37,082**	**26,897**	**48,091**	**46,630**	

NOTE 30: CONTINGENT LIABILITIES AND COMMITMENTS

	2002	2001
Guarantees and standby letters of credit	8,487	11,819
Documentary and commercial letters of credit	3,410	1,647
	11,897	**13,466**
Provision for risk	(142)	(227)

The provision for risks relates to the guarantees and other off-balance sheet contingent liabilities.

By valuation of the Bank experts the overall amount of collaterals received for loans to customers represents 173 841 thousand GEL (141 861 thousand GEL in 2001).

As at the end of 2002, the unused credit lines to customers is 9,502 thousand GEL (4,185 thousand GEL in 2001)

NOTE 31: RETIREMENT OBLIGATIONS

The Georgian law does not impose to the banks and other companies to set up a reserve aiming at financing the retirement indemnities of their employees and there exists currently no obligation for the employers to pay such retirement indemnities. The Bank does not have any similar contractual obligations with its employees.

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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	
	2002	2001	2002	2001
Deposits				
Amount outstanding at the beginning of the year	170	107	-	-
Amount received during the year	40	215	-	-
Amount repaid during the year	210	(153)	-	-
Amount outstanding at the end of the year	-	170	-	-
Loans				
Amount outstanding at the beginning of the year	344	281	-	-
Amount received during the year	124	745	-	140
Amount repaid during the year	(461)	(681)	-	(140)
Amount outstanding at the end of the year	7	344	-	-
Interest accrued receivable	-	9	-	-
Interest paid	26	86	-	-
Provision at the end of year	-	7	-	-

NOTE 33: POST BALANCE SHEET EVENTS

For information: as at 20 February 2003 the exchange rates of GEL against USD and EUR were respectively 2.185 and 2.348.

By estimation of Bank management, there is no significant post balance sheet event being likely to affect the position of assets and liabilities presented as at the balance sheet date.

NOTE 34: UNCERTAINTIES

Uncertainty about the future evolution of foreign currencies exchange rates

As disclosed in note 27, 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.

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.