BANK OF GEORGIA

Financial Statements

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

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ERNST & YOUNG

■ Ernst & Young Audit, LLC
Leselidze Street, 44
Tbilisi 380005, Georgia
Tel: 995 (32) 75-1064
Fax: 995 (32) 75-1066

■ შპს ერნსტ ენდ იანგ აუდიტი
ხაჭარიძეები, 380005 თბილისი
ლესელიძის ქუჩა, 44,
ტელ: 995 (32) 75-1064
ფაქსი: 995 (32) 75-1066

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank of Georgia -

We have audited the accompanying balance sheet of Bank of Georgia as of December 31, 2003, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank as of December 31, 2002, were audited by other auditors, whose report dated February 27, 2003, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit, LLC

March 10, 2004

BALANCE SHEETS

(Thousands of Georgian Lari)

	Notes	December 31, 2003	2002
Assets			
Cash and cash equivalents	4	43,626	33,867
Amounts due from credit institutions	5	16,117	13,497
Trading securities	6	-	9,395
Investment securities:	7		
- available-for-sale		445	445
- held-to-maturity		1,683	-
Loans to customers	8	141,780	97,695
Investments in associates and non-consolidated subsidiaries	10	604	143
Property and equipment	12	20,024	15,893
Intangible assets	13	2,025	2,380
Other assets	14	3,818	3,390
Total assets		**230,122**	**176,705**
Liabilities			
Amounts due to National Bank and Government	15	4,765	1,267
Amounts due to credit institutions	16	47,637	30,829
Amounts due to customers	17	121,408	96,939
Tax liabilities	9	771	51
Provisions	18	472	142
Other liabilities	14	428	847
Total liabilities		**175,481**	**130,075**
Shareholders' equity	19		
Share capital		9,856	9,856
Additional paid-in capital		4,530	4,530
Reserves		15,325	14,365
Retained earnings		24,930	17,879
Total shareholders' equity		**54,641**	**46,630**
Total liabilities and shareholders' equity		**230,122**	**176,705**
Financial commitments and contingencies	20	46,130	33,957

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

Elguja Silagadze — General Director

Zurab Akhalaia — Deputy of General Director

March 10, 2004

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Georgian Lari)

	Notes	Years ended December 31, 2003	2002
Interest income			
Loans		30,004	23,195
Securities		2,295	1,924
		32,299	25,119
Interest expense			
Deposits		5,347	4,648
Borrowings		2,533	2,536
		7,880	7,184
Net interest income before provision for impairment		**24,419**	**17,935**
Impairment of interest earning assets	11	4,105	951
Net interest income after provision for impairment		**20,314**	**16,984**
Fee and commission income		9,398	7,759
Fee and commission expense		3,022	2,842
Fees and commissions		**6,376**	**4,917**
Gains less losses from foreign currencies:			
- dealing		4,351	3,141
- translation differences		(483)	(559)
Other income		2,395	1,147
Non interest income		**12,639**	**8,646**
Salaries and benefits	21	9,060	7,731
Depreciation and amortisation	12, 13	2,231	1,403
Administrative and operating expenses	21	8,584	7,479
Other impairment and provisions	11	1,493	522
Non interest expense		**21,368**	**17,135**
Income before income tax expense		**11,585**	**8,495**
Income tax expense	9	2,431	1,391
Net income		**9,154**	**7,104**
Earnings per share	19	0.929	0.721

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

STATEMENTS O F CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002
(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*General reserve*	*Revaluation reserve*	*Retained earnings*	*Total shareholders' equity*
December 31, 2001	**9,856**	**4,530**	**9,721**	**5,148**	**12,046**	**41,301**
Dividends - ordinary shares	-	-	-	-	(1,775)	**(1,775)**
Transfer	-	-	-	(504)	504	**-**
Net income	-	-	-	-	7,104	**7,104**
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**

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Georgian Lari)

	Notes	Years ended December 31, 2003	2002
Cash flows from operating activities			
Interest received		32,891	25,188
Interest paid		(7,737)	(7,055)
Fees and commissions received		9,398	8,706
Fees and commissions paid		(3,022)	(2,530)
Realised gains less losses in foreign currencies		4,351	2,501
Recoveries of assets previously written off		2,054	340
Other operating income		2,395	1,292
Salaries and benefits		(9,060)	(7,854)
Administrative and operating expenses		(8,584)	(9,969)
Cash flow from operating activities before changes in operating assets and liabilities		**22,686**	**10,619**
Decrease (increase) in operating assets			
Trading securities		9,395	(3,206)
Amounts due from credit institutions		(2,774)	(3,836)
Loans to customers		(49,408)	(17,123)
Other assets		(1,857)	(1,298)
Increase (decrease) in operating liabilities			
Amounts due to National Bank and Government		3,498	-
Amounts due to credit institutions		14,660	4,129
Amounts due to customers		24,504	30,897
Other liabilities		(443)	(41)
Net cash flow from operating activities before income taxes		**20,261**	**20,141**
Corporate income tax paid		(1,961)	(1,994)
Net cash flow from operating activities		**18,300**	**18,147**
Cash flows used in investing activities			
Purchases of investment securities		(1,683)	-
Purchase of investments in non-consolidated subsidiaries		(461)	(62)
Purchases of property and equipment		(4,484)	(3,026)
Net cash flow used in investing activities		**(6,628)**	**(3,088)**
Cash flows used in financing activities			
Dividends paid		(2,125)	(1,775)
Exchange rates changes effect on cash and cash equivalents		212	489
Net change in cash and cash equivalents		**9,759**	**13,773**
Cash and cash equivalents, beginning		**33,867**	**20,094**
Cash and cash equivalents, ending	4	**43,626**	**33,867**

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

Bank of Georgia (the "Bank") is the 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 NBG licenses for foreign currency operations.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides banking services to its commercial and retail customers. The Bank is the largest bank in Georgia in terms of equity calculated under local accounting rules. Its main office is in Tbilisi and it has 24 branches in Tbilisi, Batumi, Kutaisi, Gori, Poti, Rustavi, Gurjaani, and 26 operating outlets. The Bank's registered legal address is Pushkin Street 3, Tbilisi, Georgia.

As of December 31, 2003, four shareholders owned 52.93% of the outstanding shares. Other shareholders owned less than 5% individually of the outstanding shares.

Shareholder	%
European Bank for Reconstruction and Development	15.72
Victor Gelovani	13.19
DEG	12.68
JSC TBC-Bank	11.34
Other	47.07
Total	**100.00**

As of December 31, 2003 and 2002, members of the Supervisory and Management Boards controlled 4,928,504 shares (50.01%) of the Bank. The Bank had an average of 865 employees during 2003 (2002 - 724) and 878 employees at the end of 2003 (2002 - 770).

2. Basis of Preparation

General

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

The Bank is required to maintain its 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.

(Thousands of Georgian Lari)

3. Summary of Accounting Policies

Recognition of Financial Instruments

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

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

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's 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

(Thousands of Georgian Lari)

Loans to Customers

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recognized in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in the 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 Bank 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 2003 and 2002.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 Bank'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 Bank as a whole.

(Thousands of Georgian Lari)

Allowances for Impairment of Financial Assets

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

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

Changes in allowances are reported in the statement of income of the related period. When 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.

Intangible Assets

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

(Thousands of Georgian Lari)

Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank 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.

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.

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, 2003 and 2002, were 2.075 Lari and 2.090 Lari to 1 USD, respectively.

Reclassifications

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

Amount	*Previously reported*	*As reclassified*	*Comment*
680	Loans to customers	Due from credit institutions	To correct misclassification of loans due from banks
852	Revaluation reserve	Retained earnings	To properly classify amounts related to depreciation of revalued assets

(Thousands of Georgian Lari)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2003	2002
Cash on hand	15,925	11,277
Current accounts with the National Bank	9,879	7,516
Current accounts with other credit institutions	17,822	15,074
Cash and cash equivalents	**43,626**	**33,867**

As of December 31, 2003, GEL 14,350 (2002 - GEL 11,409) was placed on current accounts with internationally recognized OECD banks, which are the main counter parties of the Bank in performing international settlements. Of these amounts, GEL 4,358 (2002- - GEL 209) was pledged to the counterpart bank as security for open commitments

5. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	2003	2002
Obligatory reserve with the National Bank	14,907	12,834
Loans to banks	1,235	677
	16,142	**13,511**
Less - Allowances for impairment	(25)	(14)
Amounts due from credit institutions	**16,117**	**13,497**

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

6. Trading Securities

Trading securities as of December 31, 2002, (2003 - nil) are comprised of treasury bills issued by the Ministry of Finance of Georgia. The securities are issued at a discount to face value and have maturities from three to six months. During 2002, the effective interest rate on these securities ranged from 32 to 48% per annum.

7. Investment Securities

Available-for-sale securities comprise:

	2003	2002
JSC "GeorgianCard"	386	386
JSC "American Academy in Tbilisi"	103	103
JSC "Tbilisi Stock Exchange"	40	40
JSC "United Georgian Bank"	19	19
	548	**548**
Less- Allowance for diminution in value	(103)	(103)
Available-for-sale securities	**445**	**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, 2003 and 2002, the Bank's holding in these companies was less than 20%.

As of December 31, 2003, (2002 - nil) 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 2003, average effective interest rate on these securities was approximately 42% per annum.

8. Loans to Customers

Loans are made principally within Georgia and comprise:

	2003	2002
Trade & Services	47,481	31,810
Individuals	44,210	16,514
Mining	26,606	14,514
Pawn loans	17,074	24,714
Construction	11,512	6,848
Energy	868	5,710
Agriculture	189	96
Transport & Communication	334	1,104
Other	2,768	1,942
	151,042	103,252
Less - Allowance for loan impairment	(9,262)	(5,557)
Loans to customers	**141,780**	**97,695**

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 ninety days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment. As of December 31, 2003, the total gross amount of impaired loans, on which contractual interest was not accrued, was GEL 6,746 (2002 - GEL 7,932). Unrecognised interest related to such loans amounted to GEL 600 (2002 - GEL 408).

As of December 31, 2003, the Bank's loans to the ten largest borrowers were GEL 38,533 (26% of total gross loan portfolio) (2002 - GEL 18,646, 18%). An allowance of GEL 1,281 (2002 - GEL 274) was made against these loans.

Loans have been extended to the following types of customers:

	2003	2002
Private companies	83,009	54,487
Individuals	61,284	41,228
State companies	6,685	7,537
State budget or local authorities	64	-
Loans to customers	**151,042**	**103,252**

9. Taxation

The corporate income tax expense comprises:

	2003	2002
Current tax charge	2,193	1,271
Deferred tax charge	238	120
Income tax expense	**2,431**	**1,391**

(Thousands of Georgian Lari)

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 liabilities consist of the following:

	2003	2002
Current tax liabilities	232	-
Deferred tax liabilities	539	51
Tax liabilities	**771**	**51**

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

	2003	2002
Income before tax	11,585	8,495
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	2,317	1,699
State securities at lower rate	(446)	(385)
Tax exempt income	-	(121)
Non deductible expenditures:		
- losses on disposals of assets	115	-
- bonuses	87	-
- impairment losses	70	-
- charity	64	58
- leasehold repair expenses	55	52
- representation expenses	41	26
- business trip costs	32	9
- other	96	53
Income tax expense	**2,431**	**1,391**

Deferred tax assets and liabilities as of December 31 comprise:

	2003	2002
Tax effect of deductible temporary differences:		
Allowances for impairment and provisions for other losses	82	19
Property and equipment	15	293
Deferred tax asset	**97**	**312**
Tax effect of taxable temporary differences:		
Revaluation of property	601	363
Accrued income	35	-
Deferred tax liability	**636**	**363**
Net deferred tax liability	**539**	**51**

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), one turnover based tax, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, implementing regulations are often unclear or nonexistent and few precedents have been established. It creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

(Thousands of Georgian Lari)

10. Investments in Associates and Non-Consolidated Subsidiaries

Investments in associates and non-consolidated subsidiaries comprise:

	Holding, %	*Country*	*Industry*	*2003*	*2002*
"SB Invest" LTD	100%	Georgia	Brokerage	143	143
JSC "Galt & Taggart Securities"	35%	Georgia	Brokerage	261	-
"Georgian Leasing Company" LTD	20%	Georgia	Leasing	200	-
Investments in associates and non-consolidated subsidiaries				**604**	**143**

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

11. Allowances for Losses and Provisions

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

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2001	-	**4,834**	**4,834**
Charge	14	937	951
Write-offs	-	(554)	(554)
Recoveries	-	340	340
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**

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

	Available for sale securities	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2001	**103**	-	**227**	**330**
Charge (reversal)	-	607	(85)	522
Write-offs	-	(7)	-	(7)
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**

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 immediately written off if overdue more than 150 days.

(Thousands of Georgian Lari)

12. Property and Equipment

The movements of property and equipment, were as follows:

	Land & buildings	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revaluation						
December 31, 2002	**11,338**	**4,440**	**3,340**	**674**	**490**	**20,282**
Additions	2,388	1,538	598	417	146	5,087
Disposals	-	(7)	(90)	(42)	-	(139)
Accumulated depreciation write-off prior to revaluation	(1,750)	-	-	-	-	(1,750)
Revaluation	1,257	-	-	-	-	1,257
December 31, 2003	**13,233**	**5,971**	**3,848**	**1,049**	**636**	**24,737**
Accumulated impairment						
December 31, 2002	**-**	**-**	**-**	**-**	**-**	**-**
Charge	467	-	-	-	-	467
December 31, 2003	**467**	**-**	**-**	**-**	**-**	**467**
Accumulated depreciation						
December 31, 2002	**1,654**	**1,032**	**1,388**	**275**	**40**	**4,389**
Charge for the year	200	481	691	155	83	1,610
Disposals	-	-	(2)	(1)	-	(3)
Write-off prior to revaluation	(1,750)	-	-	-	-	(1,750)
December 31, 2003	**104**	**1,513**	**2,077**	**429**	**123**	**4,246**
Net book value						
December 31, 2002	**9,684**	**3,408**	**1,952**	**399**	**450**	**15,893**
December 31, 2003	**12,662**	**4,458**	**1,771**	**620**	**513**	**20,024**

In 2003, the Bank engaged an independent appraisal firm to opine on the fair market value of the Bank'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. Historical cost of land and buildings as of December 31, 2003 was GEL 9,988.

13. Intangible Assets

The movements of intangible assets, were as follows:

	Computer software
Cost	
December 31, 2002	**2,694**
Additions	266
December 31, 2003	**2,960**
Accumulated amortization	
December 31, 2002	**314**
Charge for the year	621
December 31, 2003	**935**
Net book value	
December 31, 2002	**2,380**
December 31, 2003	**2,025**

(Thousands of Georgian Lari)

14. Other Assets and Liabilities

Other assets comprise:

	2003	2002
Foreclosed assets	1,702	1,628
Settlements for operations with securities	695	20
Prepaid operating taxes	376	1,076
Settlements with clients	103	-
Other	2,150	1,266
	5,026	**3,990**
Less - Allowance for impairment of other assets	(1,208)	(600)
Other assets	**3,818**	**3,390**

Other liabilities comprise:

	2003	2002
Dividends payable	119	94
Other	309	753
Other liabilities	**428**	**847**

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

15. Amounts Due to National Bank and Government

Amounts due to National Bank and Government consist of the following:

	2003	2002
Amounts due to the Georgian Government	2,165	1,267
Amounts due to the National Bank of Georgia	2,600	-
Amounts due to National Bank and Government	**4,765**	**1,267**

16. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2003	2002
Current accounts	338	310
Time deposits and loans	22,951	13,040
Borrowings from international financial institutions	24,348	17,479
Amounts due to credit institutions	**47,637**	**30,829**

As of December 31, 2003 and 2002, borrowings from international financial institutions comprised 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, 2003, the Bank was not in compliance with a covenant related to its borrowings from BSTDB. However, the Bank obtained a waiver from the creditor regarding this event of non-compliance.

(Thousands of Georgian Lari)

17. Amounts Due to Customers

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

	2003	2002
Current accounts	54,899	44,874
Time deposits	66,509	52,065
Amounts due to customers	**121,408**	**96,939**
Held as security against letters of credit	4,358	26
Held as security against letters of guarantees	539	293

At year-end, amounts due to customers of GEL 15,209 (13% of total amounts due to customers) were due to the 10 largest customers (2002 - GEL 5,479 (6%)).

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

	2003	2002
Individuals	69,560	55,641
Private enterprises	44,825	35,606
State and budgetary organisations	4,949	5,079
Employees	345	163
Other	1,729	450
Amounts due to customers	**121,408**	**96,939**

An analysis of customer accounts by sector follows:

	2003	2002
Individuals	69,560	55,641
Trade and services	19,322	19,433
Construction	7,031	3,453
Energy	3,860	4,002
Transport and communication	1,236	1,791
Mining	1,043	1,506
Agriculture	232	170
Other	19,124	10,943
Amounts due to customers	**121,408**	**96,939**

18. Provisions

Provisions by the Bank as of December 31, 2003, comprise provisions for letters of credit and guarantees of GEL 472 (2002 - GEL 142).

19. Shareholders' Equity

As of December 31, 2003 and 2002, share capital comprised 10,000,000 common shares, of which 9,855,606 were issued and fully paid. Each share has a nominal value of one Lari.

The share capital of the Bank 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, 2003, net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year were GEL 9,154 and 9,855,606, respectively.

At the Shareholders' Meeting in March 2003, the Bank declared dividends of GEL 2,150 in respect of 2002.

(Thousands of Georgian Lari)

20. Commitments and Contingencies

Operating Environment

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

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

Legal

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

Financial commitments and contingencies

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

	2003	*2002*
Credit related commitments		
Undrawn loan commitments	9,091	11,761
Letters of credit	13,750	3,410
Guarantees	16,781	8,487
	39,622	**23,658**
Lease commitments		
Not later than 1 year	2,251	1,924
Later than 1 year but not later than 5 years	5,897	5,394
Later than 5 years	3,129	2,842
	11,277	**10,160**
Capital expenditure commitments	**600**	**600**
	51,499	**34,418**
Less - Secured by clients' funds	(4,897)	(319)
Less - Provisions	(472)	(142)
Financial commitments and contingencies	**46,130**	**33,957**

As of December 31, 2003, letters of credit of GEL 4,358 (2002 - GEL 209) and guarantees of GEL 539 (2002 - GEL 293) were secured by clients' funds, and the Bank did not create any provisions against these commitments.

Insurance

The Bank's premises are insured for GEL 5,738. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Georgia at present.

(Thousands of Georgian Lari)

21. Salaries and Administrative and Operating Expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2003	2002
Salaries and bonuses	7,012	6,012
Social security costs	2,048	1,719
Salaries and benefits	**9,060**	**7,731**
Occupancy and rent	2,145	1,459
Security	1,100	940
Operating taxes	908	1,011
Office supplies	867	926
Repair and maintenance of property and equipment	791	817
Telephone and post	738	664
Marketing and advertising	681	715
Impairment of property	467	45
Business travel and related	185	269
Insurance	164	57
Entertainment	123	102
Personnel training	105	158
Legal and consultancy	47	48
Expenses related to banking services	27	9
Penalties incurred	9	30
Other	227	229
Administrative and operating expenses	**8,584**	**7,479**

The aggregate remuneration and other benefits paid to members of the Supervisory and Management Boards for 2003 was GEL 812 (2002 - GEL 717).

22. Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. 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 Bank 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.

(Thousands of Georgian Lari)

Concentration

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

	2003				2002			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*	*Georgia*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	28,454	14,350	822	43,626	20,083	11,409	2,375	33,867
Amounts due from credit institutions	16,117	-	-	16,117	13,497	-	-	13,497
Trading securities	-	-	-	-	9,395	-	-	9,395
Investment securities:								
- available-for-sale	445	-	-	445	445	-	-	445
- held-to-maturity	1,683	-	-	1,683	-	-	-	-
Loans to customers	141,780	-	-	141,780	97,695	-	-	97,695
All other assets	26,471	-	-	26,471	21,806	-	-	21,806
	214,950	**14,350**	**822**	**230,122**	**162,921**	**11,409**	**2,375**	**176,705**
Liabilities:								
Due to NBG and Government	4,765	-	-	4,765	1,267	-	-	1,267
Due to credit institutions	3,725	43,912	-	47,637	4,966	25,863	-	30,829
Due to customers	121,408	-	-	121,408	96,939	-	-	96,939
All other liabilities	1,671	-	-	1,671	1,040	-	-	1,040
	131,569	**43,912**	**-**	**175,481**	**104,212**	**25,863**	**-**	**130,075**
Net balance sheet position	**83,381**	**(29,562)**	**822**	**54,641**	**58,709**	**(14,454)**	**2,375**	**46,630**

Market Risk

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

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

Currency Risk

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

(Thousands of Georgian Lari)

	2003				2002			
	Lari	*Freely convertible*	*Non convertible*	*Total*	*Lari*	*Freely convertible*	*Non convertible*	*Total*
Assets:								
Cash and cash equivalents	15,053	27,905	668	43,626	10,306	23,297	264	33,867
Amounts due from credit institutions	14,907	1,210	-	16,117	12,834	663	-	13,497
Trading securities	-	-	-	-	9,395	-	-	9,395
Investment securities:								
- available-for-sale	445	-	-	445	445	-	-	445
- held-to-maturity	1,683	-	-	1,683	-	-	-	-
Loans to customers	22,132	119,648	-	141,780	14,718	82,977	-	97,695
All other assets	26,094	377	-	26,471	21,638	168	-	21,806
	80,314	**149,140**	**668**	**230,122**	**69,336**	**107,105**	**264**	**176,705**
Liabilities:								
Due to NBG and Government	1,211	3,554	-	4,765	1,267	-	-	1,267
Due to credit institutions	43	47,594	-	47,637	82	30,747	-	30,829
Due to customers	18,069	103,339	-	121,408	15,113	81,826	-	96,939
All other liabilities	1,424	247	-	1,671	755	285	-	1,040
	20,747	**154,734**	**-**	**175,481**	**17,217**	**112,858**	**-**	**130,075**
Net balance sheet position	**59,567**	**(5,594)**	**668**	**54,641**	**52,119**	**(5,753)**	**264**	**46,630**
Net off balance sheet position	**3,997**	**35,625**	**-**	**39,622**	**2,116**	**21,542**	**-**	**23,658**

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 Bank'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 Bank'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 Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

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

	2003		2002	
	GEL	*Foreign currencies*	*GEL*	*Foreign currencies*
Bank rates				
Credit institutions	-	4%	-	6%
Investment securities:				
- held-to-maturity	42%	-	32-48%	-
Loans to customers	24%	21%	22-25%	16-26%
Due to credit institutions	-	5%	-	8-11%
Deposits, generally for terms up to one year	5%	9%	5%	9-10%
Market rates				
Credit institutions	2%	1-15%	-	1-15%
Loans to customers	25%	21%	18%	23%
Due to credit institutions	2%	5-15%	-	5-15%
Deposits, generally for terms up to one year	5%	9%	5%	11%

(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 Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.
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.

	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**	

	2002							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	33,867	-	-	-	-	-	-	33,867
Credit institutions	12,834	-	-	663	-	-	-	13,497
Trading securities	-	3,040	6,355	-	-	-	-	9,395
Investment securities:								
- available-for-sale	-	-	-	-	-	445	-	445
Loans to customers	-	12,778	15,433	22,981	36,422	5,020	5,061	97,695
	46,701	**15,818**	**21,788**	**23,644**	**36,422**	**5,465**	**5,061**	**154,899**
Liabilities:								
Due to NBG and Government	1,267	-	-	-	-	-	-	1,267
Due to credit institutions	81	4,351	4,634	4,939	5,942	10,882	-	30,829
Due to customers	52,061	1,473	7,014	27,301	8,983	107	-	96,939
	53,409	**5,824**	**11,648**	**32,240**	**14,925**	**10,989**	**-**	**129,035**
Net position	**(6,708)**	**9,994**	**10,140**	**(8,596)**	**21,497**	**(5,524)**	**5,061**	**25,864**
Accumulated gap	**(6,708)**	**3,286**	**13,426**	**4,830**	**26,327**	**20,803**	**25,864**	

The Bank'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 set up 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)

23. Fair Values of Financial Instruments

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

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

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, 2003 and 2002, fair value of loans to customers approximates their carrying value.

Investment Securities

Investment securities held-to-maturity comprises securities with fixed interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

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, 2003 and 2002, fair value of amounts due to customers approximates their carrying value.

24. Related Party Transactions

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

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank ;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(Thousands of Georgian Lari)

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

	2003			2002		
	Related party transactions	*Percent on normal conditions*	*Total category*	*Related party transactions*	*Percent on normal conditions*	*Total category*
Loans to customers, gross	2,677	98%	151,042	1,236	100%	103,252
Investments in associates and non-consolidated subsidiaries	604	100%	604	143	100%	143
Amounts due to credit institutions	26,553	100%	47,637	13,058	100%	30,829
Interest income	704	100%	32,299	260	100%	25,119
Interest expense	2,037	100%	7,880	1,761	100%	7,184

25. Capital Adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of December 31, 2003 and 2002, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2003 and 2002, was 28% and 33%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.