INDEPENDENT AUDITORS' REPORT

ARTHURANDERSEN

To the Partners of TBC Bank

We have audited the accompanying balance sheet of TBC Bank (the "Bank") as of 31 December 2000, and the related statements of income, shareholders' funds and cash flow for the year ended 31 December 2000. 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 31 December 1999 were audited by another auditor, whose unqualified report was dated 20 March 2000.

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 give a true and fair view of the financial position of the Bank as of 31 December 2000, and the results of its operations and its cash flow for the year ended 31 December 2000 in accordance with Statements of International Accounting Standards issued by the International Accounting Standards Committee.

Arthur Andersen ZAO

Moscow
Russian Federation

2 February 2001

Income statement

(all amounts expressed in thousands of Georgian Lari)	**Notes**	**2000**	**1999**
Interest income		11 649	8 365
Interest expense		3 884	2 425
Net interest income	**4**	**7 765**	**5 940**
Provisions for bad debts	8	2 542	1 328
Net interest income after provision for losses		**5 223**	**4 612**
Fee and commission income, net	5	4 528	2 767
Other operating income	6	711	264
Operating income		**10 462**	**7 643**
Operating expenses	7	5 878	4 120
Other provisions	24	442	235
Profit before tax		**4 162**	**3 488**
Taxation	9	498	361
Profit		**3 664**	**3 127**

The accompanying notes from an integral part of these financial statements

Balance sheet

(all amounts expressed in thousands of Georgian Lari)	**Notes**	**2000**	**1999**
ASSETS			
Cash and balances with NBG	10	14 767	8 327
Due from other banks	11	14 012	13 626
Dealing securities	12	-	676
Loans and advances to customers	13	51 942	36 075
Investments securities	14	1 536	1 970
Property and equipment	15	3 028	2 980
Tax asset	21	201	122
Intangible assets	16	156	114
Interest receivable and other assets	17	2 040	2 219
Total assets		**87 682**	**66 109**
LIABILITIES			
Due to other banks	18	16 643	23 392
Due to customers	19	52 782	30 809
Interest payable and other liabilities	20	1 913	1 345
Total liabilities		**71 338**	**55 546**
SHAREHOLDERS' EQUITY			
Ordinary shares	23	5 000	3 000
Share premium		2 298	474
Reserves		82	82
Retained profits		8 964	7 007
Total shareholders' equity		**16 344**	**10 563**
Total equity and liabilities		**87 682**	**66 109**
Commitments and contingencies	**22**	**5 180**	**8 766**

Signed on behalf of the Board of Directors

Vakhtang Butskhrikidze	General director
Givi Lemonjava	Deputy general director

2 February 2001

The accompanying notes from an integral part of these financial statements

Statement of changes in shareholders' equity

(all amounts expressed in thousand of Georgian Lari)	**Share capital**	**Share premium**	**Reserves**	**Retained profits**	**Total equity**
Balance, 31 December 1998					
- as previously reported	2 978	474	82	3 810	7 344
- effect of adopting IAS 12 revised	-	-	-	94	94
- as restated	**2 978**	**474**	**82**	**3 904**	**7 438**
Dividends paid	-	-	-	(24)	(24)
Shares issued	22	-	-	-	22
Profit - restated for the effect of IAS 12 revised	-	-	-	3 127	3 127
Balance, 31 December 1999	**3 000**	**474**	**82**	**7 007**	**10 563**
Shares issued	464	-	-	-	464
Share premium received	-	1 824	-	-	1 824
Dividends capitalized	1 536	-	-	(1 536)	-
Dividends paid	-	-	-	(171)	(171)
Profit	-	-	-	3 664	3 664
Balance, 31 December 2000	**5 000**	**2 298**	**82**	**8 964**	**16 344**

The accompanying notes from an integral part of these financial statements

Cash flow statement

(all amounts expressed in thousands of Georgian Lari)	**Notes**	**2000**	**1999**
Cash flows from operating activities			
Profit before tax		4 162	3 488
Provision for bad debts		2 542	1 328
Other provisions		422	51
(Gains) losses from dealing securities		290	(161)
Translation gains		(166)	(75)
Depreciation		550	297
Income tax paid		(577)	(389)
Cash flows from operating profits before changes in operating assets and liabilities		**7 223**	**4 539**
Changes in operating assets and liabilities:			
(Increase) decrease in loans and advances to banks		(94)	(440)
(Increase) in loans and advances to customers		(18 226)	(20 073)
(Increase) decrease in government securities		510	(510)
(Increase) decrease in other assets		49	(899)
Increase (decrease) in deposits from other banks		(11 154)	11 351
Increase in amounts due to customers		21 973	13 173
Increase (decrease) in other liabilities		564	(525)
Net cash flow from operating activities		**845**	**6 616**
Cash flows from investing activities			
Equity investments purchased		(76)	(993)
Property and equipment purchased		(678)	(634)
Property and equipment sold		136	18
Net cash used in investing activities		**(618)**	**(1 609)**
Net cash flow from financing activities			
Increase in borrowings from banks		4 405	4 153
Share capital issue		464	22
Share premium		1 824	-
Dividend paid		(171)	(24)
Net cash used in financing activities		**6 522**	**4 151**
Change in cash and cash equivalents		6 749	9 158
Effect of exchange rate changes on cash and cash equivalents		18	24
Cash and cash equivalents at beginning of year		**20 958**	**11 776**
Cash and cash equivalents at end of year	**25**	**27 725**	**20 958**

The accompanying notes from an integral part of these financial statements

Notes to Financial Statements
31 December 2000
(thousands of Lari)

1 Principal activities

TBC Bank (the "Bank") was formed on 17 December 1992 as a closed joint stock company under the laws of the Georgia. The Bank's registered legal address is Tbilisi, Georgia, 380079, 11 Chavchavadze Ave. The Bank possesses general banking license ¹85 from the National Bank of Georgia, granted on 20 January 1993. At 31 December 2000, five shareholders owned 75.9 % of the outstanding shares. In 2000 the Bank attracted new shareholders - International Financial Corporation ("IFC") and Deutsche Investitions und Entwicklungsgesellschaft ("DEG"), with each owning 10% of the Bank's Share Capital at 31 December 2000.

The Bank is among the three largest banks in Georgia. Its main office is in Tbilsi and it has two branches in Tbilisi and four branches in total in Kutaisi, Rustavi, Poti and Borjomi. It had an average of 172 employees during the year (1999 - 134) and 177 employees at the end of 2000 (1999 - 167). The Bank accepts deposits from the public and makes loans, transfers payments in Georgia and abroad, exchanges currencies and provides banking services for its commercial and retail customers.

At 31 December 2000, the Bank's deposits, generally received for less than one year, paid interest at rates from 4% to 13% for freely convertible currency deposits and 4% to 13% for Lari deposits. The stated interest rates on the Bank's loans ranged from 15% to 48% for freely convertible currency loans and 24% for Lari loans. See Note 27 for further details regarding the Bank's interest rate profile and risks.

2 Current environment

During recent years, Georgia has undergone substantial political, economic and social changes. Substantial political instability still exists in certain regions of the country. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that generally exists in a more mature free market economy. As a result, operations carried out in Georgia involve certain risks that are not typically associated with those in developed markets. Comparative instability in market reform in 1998 that could have subjected the Bank to unpredictable changes in business infrastructure, under which it carried its operations, has been relatively improved in 2000, leading to relative stabilization of exchange and interest rates.

Despite the extensive reform course recently taken by the government, Georgia is currently experiencing an economic recession, which has been characterized by sharply reduced economic activity. Starting from 1999, economic situation in Georgia became complicated. This crisis is due among others to significant fiscal deficit, low rates of tax collection and lack of liquidity, as well as to the unstable political and economic situation of neighboring Russia.

Uncertainties regarding the macroeconomic environment could significantly affect the Bank's ability to operate commercially. Consequently, the Bank faces higher credit and currency risks in this environment. It is not possible to estimate the effect of such uncertainties or the resulting effect, if any, on the Bank's financial condition or future results of operations. As the ultimate outcome of these matters cannot presently be determined, the accompanying financial statements do not include any adjustment that might result from these uncertainties. Such adjustments, if any, will be reported when they become known and estimable

The direct net exposure of the Bank to Russian financial institutions is 106 KGEL at 31 December 2000.

3 Accounting policies

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

(a) Basis of presentation

The financial statements are prepared in accordance with and comply with International Accounting Standards ('IAS'), issued by the International Accounting Standards Committee. The accompanying financial statements are based on the statutory records of the Bank, which are maintained under the historical cost convention.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Lari at official National Bank of Georgia rates of exchange at the balance sheet date. Transactions denominated in foreign currencies are reported at the NBG rates of exchange at the date of the transaction. Differences between the contractual exchange rate of a certain transaction and the National Bank exchange rate on the date of the transaction are included in foreign exchange gain or loss. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in exchange rates after the date of the transaction are recognized as a translation gain or loss.

(c) Income and expense recognition

Interest income and expense is recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

(d) Taxation

The taxation charge is calculated in accordance with the regulations of Georgia and is based on the results reported in the profit and loss account of the Bank prepared under GAL after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an assets or liability is the amount attributed to that asset or liability for tax purposes.

Georgia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of non-interest expenses.

(e) Due from other banks

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. As these placements of funds are typically unsecured extensions of credit, management provides general reserves against the risk of possible losses. The Bank also provides specific reserves on a case-by-case basis.

(f) Investment securities

Investment securities include equity securities and T-Bills of the government of Georgia which management intend to hold for capital growth purposes. Equity investments are stated at historical cost less any impairment. Dividends received are included in other operating income.

(g) Dealing securities.

Dealing securities are stated at fair value based on estimated market prises.

(h) Loans and reserves for bad and doubtful debts

Loans are stated at the unpaid principal balance less reserve for loan losses as presented in Note 13. Each period the provision for losses in the profit and loss account results from the combination of a) an estimate by management of loan losses that occurred during the current period and b) the ongoing adjustment of prior estimates of losses occurring in prior periods

To serve as a basis for making this provision, the Bank maintains a credit risk monitoring process that considers several factors including: current economic conditions affecting the bank's customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific large loan relationships. For large loans deemed to be impaired due to an expectation that all contractual payments will probably not be received, impairment is measured by comparing the Bank's recorded investment in the loan to the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral or the loan's observable market price

The provision for loan losses increases the reserve for loan losses, a valuation account that is netted against loans on the balance sheet. As the specific customer and amount of a loan loss is confirmed by gathering additional information, taking collateral in full or partial settlement of the loan, bankruptcy of the borrower, etc., the loan is written down, reducing the reserve for loan losses. If, after a writedown, the Bank is able to collect additional amounts from the customer or obtain control of collateral worth more than earlier estimated; a recovery is recorded, increasing the reserve for loan losses.

In determining its reserve, the Bank first reviews all loans to determine whether any specific reserve should be applied to individual loans. For other loans and advances, the Bank then classifies these amounts into five categories by reference to debt service capability and repayment history and bases the reserve on the Bank's own loan loss experience and management's judgments as to the level of losses that will most likely be recognized from assets in each category.

At the time a loan is contractually due, interest or principal is 60 days or more overdue, or management otherwise believes the contractual interest or principal due will not be collected, the loan is classified as non-performing and any accrued interest is reversed.

(i) Property, plant and equipment

Fixed assets are recorded at historical cost or at revalued amounts less accumulated depreciation. Depreciation is provided to write off the cost or valuation on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

Buildings	30 years
Equipment	8 years
Furniture and fittings	5-8 years
Motor vehicles	4-5 years
Computers	3-5 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount. Repairs and renewals are charged to the income statement when the expenditure is incurred.

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

(j) Intangible assets

Intangible assets are recorded at historical cost or at revalued amounts less accumulated amortization. Amortization is provided to write off the cost or valuation on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

Goodwill	5 years
Internally generated intangible assets	3-6 years
Other intangible assets	1-10 years

(k) Impact of inflation

IAS requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IAS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The indicated inflation rate based on the Georgian consumer price index was approximately 4% for the year ended 31 December 2000 (11% and 11% for 1999 and 1998 respectively).A majority of the 2000 balance sheet consists of monetary items, some of which are denominated in freely convertible currencies. The Lari to US dollar exchange rate has declined by approximately 2% during 2000 from 1.93 to 1.975. See Note 26 for a summary of assets and liabilities denominated in freely convertible currencies.

(l) Cash and cash equivalents

For the purposes of the 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 the National Bank and amounts due from other banks.

(m) Reclassifications

The following reclassifications have been made to 1999 balances to conform with 2000 presentation:

Amount	As reported	As restated	Reason
1 629	Translation gain	Fees and commissions received	Consistent presentation

4 Net interest income

	2000	1999
Interest income		
Loans and advances to customers	10 503	7 392
Loans and advances to banks	1 146	973
	11 649	**8 365**
Interest expense		
Amounts due to customers	2 056	1 310
Amounts due to banks	1 828	1 115
	3 884	**2 425**

5 Net fees and commission income

	2000	1999
Fees on conversion operations	2 176	1 629
Cash operations	1 188	747
Settlement operations	730	407
Other	866	511
Fees and commission income	**4 960**	**3 294**
Settlement operations	128	89
Cash operations	126	54
L/C	120	250
Other	58	134
Fees and commission expense	**432**	**527**
Net fees and commission income	**4 528**	**2 767**

6 Other operating income

	2000	1999
Income from penalties	626	-
Dividend income	68	28
Translation gain	166	75
Gains (losses) from dealing securities	(288)	161
Other	139	-
	711	**264**

7 Operating expenses

	2000	1999
Staff costs, including:		
- Wages and salaries	2 022	1 527
- Social security costs	627	473
Hired services	1 216	615
Depreciation and amortisation (Note 15, 16)	550	297
Materials	453	498
Advertising and marketing	167	182
Operational taxes	192	179
Charity	112	142
Other	539	207
	5 878	**4 120**

8 Provisions for bad debts

	2000	1999
Loans and advances to customers (Note 13)	2 507	1 328
Loans and advances to banks	35	-
	2 542	**1 328**

9 Taxation

	2000	1999
Current tax	577	389
Deferred tax	(79)	(28)
	498	**361**

Taxation is payable at an effective rate of 10% (1999: 10 %) on taxable profits. The standard income tax rate in Georgia is 20%. Under the Georgian Law, the Bank enjoys a 50% tax exemption from the standard income tax rate due to the foreign equity participation in the Bank. This tax exemption is valid for the six-year period from 1995 to 2001. Afterwards, the Bank will be subject to the standard income tax rate for the country.

	2000	1999
Profit before tax	4 162	3 488
Prima facie tax calculated at a tax rate of 10%	416	348
Deferred tax change	79	28
Tax effect of items not assessable for tax purposes	3	(15)
Income tax expense	**498**	**361**

Further information about deferred tax is presented in Note 21.

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. The local tax inspectorate has checked the Bank in July 2000 and has not found any violations of the tax code or any other applicable laws. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

10 Cash and balances with NBG

	2000	1999
Cash on hand	5 047	1 919
Balances with NBG	9 720	6 408
	14 767	**8 327**

Balances with the National Bank of Georgia ("NBG") include mandatory reserves of 7 638 KGEL (1999: 4 018 KGEL). These funds are not available for use in the day-to-day operations of the Bank.

11 Due from other banks

	2000	**1999**
Placements with other banks	13 556	12 661
Loans and advances to other banks	491	965
Gross due from other banks	**14 047**	**13 626**
Less reserve for doubtful debts	(35)	-
Net due from other banks	**14 012**	**13 626**

Placements with other banks include 1 089 KGEL, which are blocked under L/C and Guarantees. (1999: 995 KGEL)

12 Dealing securities

The Bank had 676 KGEL dealing securities in 1999 (shares in the chocolate factory "Mziuri" LLC). In 2000 these dealing securities have been completely disposed.

13 Loans and advances to customers

	2000	**1999**
Loans to the private entities	53 290	34 350
Loans to individuals	2 504	4 115
Gross loans and advances	**55 794**	**38 465**
Less specific reserve for doubtful debts	(2 450)	(1 621)
Less general reserve for doubtful debts	(1 402)	(769)
Net loans	**51 942**	**36 075**

13 Loans and advances to customers (continued)

Movement in provisions for doubtful debts was as follows:

	Provision
Balance at 31 December 1998	**1 878**
Loan loss provision expense	1 328
Recoveries of loans previously written off	736
Bad debts written off	(1 552)
Balance at 31 December 1999	**2 390**
Loan loss provision expense	2 507
Recoveries of loans previously written off	1 468
Bad debts written off	(2 513)
Balance at 31 December 2000	**3 852**

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2000	**2000** %	**1999**	**1999** %
Trade	17 671	31.67	13 126	34.12
Industries	11 454	20.53	8 544	22.21
Consumption	9 846	17.65	4 115	10.71
Services	8 144	14.60	4 767	12.39
Agriculture	1 748	3.13	891	2.32
Construction	1 072	1.92	3 236	8.41
Other	5 859	10.50	3 786	9.84
Total	**55 794**	**100**	**38 465**	**100**

Loans and advances are further analyses as a part of the balance sheet in the following notes: Currency risk Note 26, Interest rate risk Note 27, and Liquidity risk Note 28.

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14 Investment securities

	2000	1999
Equity securities	1 584	1 508
Government securities	-	510
Gross investment securities	**1 584**	**2 018**
Less reserve for diminution in value	(48)	(48)
Net investments	**1 536**	**1 970**

The equity securities are principally analyzed as follows:

Name	**Nature of business**	**2000**	**2000** %	**1999**	**1999** %
Microfinance Bank of Georgia	Banking	980	19.60	980	19.60
Bank of Georgia	Banking	383	3.36	315	3.85
Union Financial Corporation	Finance	130	20.00	130	20.00
Others		91	-	83	-
Total equity investments at cost		**1 584**		**1 508**	
Less reserve for diminution of value		(48)		(48)	
Net investments		**1 536**		**1 460**	

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15 Property and equipment

	Land and buildings	Fixtures and fittings	Machines and equipment	Vehicles	Assets in progress	Total
Gross book value						
31 December1998	**2 238**	**334**	**382**	**181**	**158**	**3 293**
Additions	295	128	176	14	17	630
Disposals	(95)	(46)	(97)	(8)	(140)	(386)
31 December 1999	**2 438**	**416**	**461**	**187**	**35**	**3 537**
Additions	73	188	179	103	135	678
Disposals	(35)	(45)	(47)	(14)	-	(141)
31 December 2000	**2 476**	**559**	**593**	**276**	**170**	**4 074**
Acc. Depreciation						
31 December 1998	**107**	**81**	**80**	**41**	**-**	**309**
Additions	91	62	91	39	-	283
Disposals	(3)	(1)	(26)	(5)	-	(35)
31 December 1999	**195**	**142**	**145**	**75**	**-**	**557**
Additions	236	105	103	50	-	494
Disposal	-	(2)	(3)	-	-	(5)
31 December 2000	**431**	**245**	**245**	**125**	**-**	**1 046**
Net book value						
31 December 1999	2 243	274	316	112	35	2 980
31 December 2000	**2 045**	**314**	**348**	**151**	**170**	**3 028**

16 Intangible assets

	Other intangible assets
Gross book value	
31 December 1999	**138**
Additions	100
Disposals	(2)
31 December 2000	**236**
Amortisation	
31 December 1999	**24**
Additions	56
31 December 2000	**80**
Net book value	
31 December 1999	114
31 December 2000	**156**

17 Interest receivable and other assets

	2000	1999
Accrued interest receivable	1 334	1 157
Other	738	1 062
Gross interest receivable and other assets	**2 072**	**2 219**
Less reserve for diminution value	(32)	-
Net interest receivable and other assets	**2 040**	**2 219**

18 Due to other banks

	2000	1999
Loans from other banks	16 440	22 067
Current accounts	203	1 325
	16 643	**23 392**

At 31 December 2000 loans from other banks include 16 440 KGEL borrowings from international credit institutions (at 31 December 1999 - 12 035 KGEL) that can be analyzed as follows:

Currency	Credit line limit	Balance in original currency, thsd.	Balance, KGEL	Interest rate	Maturity
USD	-	817	1 613	LIBOR + 6%	30-Jan-01
DEM	3 000	2 720	2 524	9.30%	31-Jul-05
EUR	1 000	1 000	1 815	9.875%	15-Nov-07
USD	3 000	2 296	4 534	LIBOR + 6%	10-Jul-06
USD	3 000	2 376	4 694	LIBOR + 4.3%	10-Apr-03
USD	-	300	593	LIBOR + 3%	Depends on tranch
USD	500	338	667	LIBOR + 4.5%	31-Dec-01
Total			**16 440**		

The above loans have been received by the Bank from DEG, Dresdner Bank, Shore Bank, World Bank, IFC and EBRD.

19 Due to customers

	2000	1999
Current accounts, including		
-- from individuals	7 766	1 079
-- from companies and government organisations	16 355	16 641
	24 121	17 720
Deposits and savings accounts, including		
-- from individuals	18 545	8 955
-- from companies and government organisations	10 116	4 134
	28 661	13 089
	52 782	**30 809**

Current accounts from companies and government organizations include 840 KGEL (1999: nil), which are blocked under L/C and Guarantees.

20 Interest payable and other liabilities

	2000	1999
Accrued interest payable	1 336	826
Accrued salary	163	139
Accrued audit expense	68	105
Reserve for bank guarantees (Note 22)	55	51
Other liabilities	291	224
	1 913	**1 345**

21 Deferred income taxes

The movement of the deferred income tax asset is as follows:

	2000	1999
At beginning of year	122	94
Current year benefit	79	28
At end of year	**201**	**122**

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

	2000	1999
Tax effect of taxable temporary differences		
Accrued interest and other assets	(133)	-
Deferred income tax liability	**(133)**	**-**
Tax effect of deductible temporary differences		
Provision for loan losses	316	6
Depreciation	20	16
Accrued interest and other liabilities	193	100
Gross deferred income tax asset	**529**	**122**
Unrecognized deferred tax asset	(195)	-
Deferred income tax asset	**334**	**122**
Net deferred income tax asset	**201**	**122**

22 Contingent liabilities and commitments

Credit related commitments.

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

	2000	1999
Guarantees and letters of credit	3 139	7 937
Commitments to extend credit	2 096	880
Reserve for bank guarantees (Note 24)	(55)	(51)
	5 180	**8 766**

At the end of 2000 the share capital of the Bank was composed of 50 000 ordinary shares with par value 100 GEL each. (1999: 30 000 shares). All the shares have one voting right and equal right to dividends.

24 Reserve for losses

Provisions for losses in the profit and loss accounts represent the charge required in the current year to establish total reserves for losses carried forward in accordance with IAS. The movement in the reserves for earning assets during 2000 and 1999 was:

	Loans to banks	**Loans to customers**	**Total reserves**
31 December 1998		**1 878**	**1 878**
Provision charged to profit	-	1 328	1 328
Recoveries of loans previously written off	-	736	736
Write off	-	(1 552)	(1 552)
31 December 1999	**-**	**2 390**	**2 390**
Provision charged to profit	35	2 507	2 542
Recoveries of loans previously written off	-	1 468	1 468
Write off	-	(2 513)	(2 513)
31 December 2000	**35**	**3 852**	**3 887**

The movement in the reserves for other risks during 2000 and 1999 was:

	Dealing securities	Investment securities	Guarantees and L/C	Other assets	Total reserves
31 December 1998	**-**	**64**	**-**	**-**	**64**
Provision charged to profit	-	(16)	51	-	35
31 December 1999	**-**	**48**	**51**	**-**	**99**
Provision charged to profit	386	-	4	32	422
Write off	(386)	-	-	-	(386)
31 December 2000	**-**	**48**	**55**	**32**	**135**

25 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity from date of acquisition:

	2000	**1999**
Cash on hand (Note 10)	5 047	1 919
Balances with NBG (Note 10)	9 720	6 408
Due from other banks (Note 11)	12 958	12 631
	27 725	**20 958**

26 Currency risk

Concentrations of assets and liabilities

The Bank maintains the following significant currency positions:

At 31 December 2000	**GEL**	**F.C.**	**Total**
Assets			
Cash and balances with NBG	11 803	2 964	14 767
Due from other banks	-	14 012	14 012
Loans and advances to customers	515	51 427	51 942
Equity investments	1 536	-	1 536
Property and equipment	3 184	-	3 184
Other assets	706	1 535	2 241
Total assets	**17 744**	**69 938**	**87 682**
Liabilities			
Due to other banks	2	16 641	16 643
Due to customers	5 830	46 952	52 782
Interest payable and other liabilities	627	1 286	1 913
Total liabilities	**6 459**	**64 879**	**71 338**
Net position	**11 285**	**5 059**	**16 344**
At 31 December 1999			
Total assets	13,206	52 903	66,109
Total liabilities	4,894	50 652	55,546
Net position	**8,312**	**2,251**	**10,563**

(intentionally blank)

27 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 summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates.

At 31 December 2000	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with NBG	-	-	-	-	14 767	14 767
Due from other banks	14 012	-	-	-	-	14 012
Loans to customers	21 219	15 148	15 575	-	-	51 942
Investment securities	-	-	-	-	1 536	1 536
Property and equipment	-	-	-	-	3 184	3 184
Other assets	-	-	-	-	2 241	2 241
Total assets	**35 231**	**15 148**	**15 575**	**-**	**21 728**	**87 682**
Liabilities						
Due to other banks	811	2 689	9 310	3 630	203	16 643
Due to customers	19 096	9 152	211	-	24 323	52 782
Other liabilities	-	-	-	-	1 913	1 913
Total liabilities	**19 907**	**11 841**	**9 521**	**3 630**	**26 439**	**71 338**
Interest sensitivity gap	**15 324**	**3 307**	**6 054**	**(3 630)**		

The table below summarises the effective interest rate by major currencies for monetary financial interest bearing instruments:

At 31 December 2000	GEL	F.C.
Assets		
Due from other banks	-	5.0%
Loans and advances to customers	24.0%	26.8%
Liabilities		
Due to other banks	-	10.1%
Due to customers	7.0%	9.1%

28 Liquidity risk

Maturities of assets and liabilities

At 31 December 2000	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets					
Cash and NBG balances	14 767	-	-	-	14 767
Due from other banks	14 012	-	-	-	14 012
Loans to customers	21 219	15 148	15 575	-	51 942
Investment securities	-	-	-	1 536	1 536
Fixed assets	-	-	-	3 184	3 184
Other assets	1 883	157	201	-	2 241
Total assets	**51 881**	**15 305**	**15 776**	**4 720**	**87 682**
Liabilities					
Due to other banks	1 014	2 689	9 310	3 630	16 643
Due to customers	43 419	9 152	211	-	52 782
Other liabilities	1 836	77	-	-	1 913
Total liabilities	**46 269**	**11 918**	**9 521**	**3 630**	**71 338**
Net liquidity gap	**5 612**	**3 387**	**6 255**	**1 090**	**16 344**
Cumulative liquidity gap	**5 612**	**8 999**	**15 254**	**16 344**	

At 31 December 1999					
Total assets	46 390	9 455	5 710	4 554	66 109
Total liabilities	37 193	6 517	11 836	-	55 546
Net liquidity gap	**9 197**	**2 938**	**(6 126)**	**4 554**	**10 563**
Cumulative liquidity gap	**9 197**	**12 135**	**6 009**	**10 563**	

The table above analyses assets and liabilities of the Bank by 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.

29 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.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions have been carried out on normal commercial terms and conditions and at market rates.

The total amount of loans to related parties of the Bank as at 31 December 2000 can be analysed as follows:

Shareholders	998
Related entities	239
Employees	124
Directors	85
Total	**1 446**

Total amount of loans to related parties of the Bank as at 31 December 1999 comprised 1,126 KGEL.

30 Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Due to the lack of relevant and reliable information available from the financial markets in Georgia, the fair value of the financial instruments of the Bank can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange.

At 31 December 2000, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

a) Cash and balances with National Bank

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

b) Due from other banks and due to other banks

- For the assets maturing within one month, the carrying amount is a reasonable estimate of fair value.

- For the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average 2000 year end market rates. If the loans are denominated in freely convertible currency the discounted cash flow value is performed in the freely convertible currency using market interest rate for that currency and then translated into Lari at the year end exchange rate.

c) Loans to customers

- The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The fair values of loans were estimated by discounting scheduled cash flows through the estimated maturity using prevailing market rates at 31 December 2000, and is implemented as follows:
- The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the reserve for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.
- Floating-rate loans for which the interest rate was similar to the average rates available for each type of loan at 31 December 2000. The carrying amount, net of the related reserve for loan losses, is considered a reasonable estimate of fair value. If the loans are denominated in freely convertible currency the discounted cash flow value is done in the freely convertible currency using market interest rate for that currency and then translated into Lari at the year-end exchange rate.
- For the remaining loans, which the Bank determined were at rates different than average market, the fair value of these loans has been estimated and presented taken the present value of future cash flows discounted at the average 2000 year end market interest rate.

d) Investment securities

- Unlisted securities at underlying book value per the 31 December 2000 currently available (in some cases unaudited). Since market quotes are not available for these securities, book value of the investee is considered a reasonable proxy.

e) Due to customers

- For liabilities maturing within one month, the carrying amount is a reasonable estimate of fair value.
- For the liabilities maturing in over one month the fair value represents the present value of estimated future cash flows discounted at the average market rates for each type of instrument. If amounts owed to customers are denominated in freely convertible currency the discounted cash flow value is done in the freely convertible currency using market interest rate for that currency and then translated into Lari at the year end exchange rate.

The estimated fair values of the Bank's financial instruments are as follows:

	2000		**1999**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets:				
Cash and balances with NBG	14 767	14 767	8 327	8 327
Due from other banks	14 012	14 045	13 626	13 628
Loans and advances to customers	51 942	53 982	36 075	38 660
Investment securities	1 536	1 536	1 970	1 970
Liabilities:				
Due to other banks	16 643	19 233	23 392	24 241
Due to customers	52 782	52 892	30 809	30 652

(end)