TBC Bank Group

Consolidated Financial Statements

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

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ERNST & YOUNG

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of TBC Bank Group –

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

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

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

April 15, 2005

Ernst & Young Audit LLC

CONSOLIDATED BALANCE SHEETS

(Thousands of Georgian Lari)

	Notes	*December 31,* *2004*	*2003*
Assets			
Cash and cash equivalents	4	83,184	58,181
Amounts due from credit institutions	5	59,681	33,180
Investment securities:	6		
- available-for-sale		7,680	2,922
- held-to-maturity		2,677	6,882
Loans to customers	7	212,396	146,480
Net investments in lease	8	3,098	-
Deferred tax assets	9	-	635
Investments in associates and non-consolidated subsidiaries	10	733	987
Property and equipment	12	20,195	10,588
Intangible assets	13	367	169
Other assets	14	1,961	1,550
Total assets		**391,972**	**261,574**
Liabilities			
Amounts owed to credit institutions	15	39,505	19,372
Amounts owed to customers	16	284,873	192,080
Tax liabilities	9	145	691
Provisions	17	875	556
Other liabilities	14	5,211	3,236
Total liabilities		**330,609**	**215,935**
Shareholders' equity			
Share capital	18	5,385	5,385
Additionally paid-in capital		4,715	4,715
Reserves		1,277	-
Retained earnings		49,986	35,539
Total shareholders' equity		**61,363**	**45,639**
Total liabilities and shareholders' equity		**391,972**	**261,574**
Financial commitments and contingencies	19	**22,259**	**22,890**

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

Name:	**Position:**
Vakhtang Butskhrikidze	General Director
Vano Baliashvili	Deputy General Director

April 15, 2005

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Georgian Lari)

		Years ended December 31,	
	Notes	***2004***	***2003***
Interest income			
Loans		32,284	27,032
Credit institutions		2,325	2,335
Securities		2,473	3,975
		37,082	**33,342**
Interest expense			
Deposits		9,681	9,422
Borrowings		1,410	1,553
		11,091	**10,975**
Net interest income		**25,991**	**22,367**
Impairment of interest earning assets	11	4,704	3,959
		21,287	**18,408**
Fee and commission income		12,498	10,065
Fee and commission expense		1,624	1,450
Fees and commissions		**10,874**	**8,615**
Gains less losses from available-for-sale securities, net		3,498	-
Gains less losses from foreign currencies:			
- dealing, net		5,477	2,792
- translation differences		(4,695)	(900)
Share in losses of associates		(38)	(303)
Dividend income		288	244
Other income		1,069	768
Non interest income		**5,598**	**2,601**
Salaries and other employee benefits	20	9,862	7,817
Administrative and operating expenses	20	6,269	5,992
Depreciation and amortisation	12, 13	1,508	1,325
Other impairment and provisions (reversal)	11	563	113
Non interest expense		**18,202**	**15,247**
Income before income tax expense		**19,558**	**14,377**
Income tax expense	9	3,811	886
Net income		**15,747**	**13,491**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Revaluation reserve*	*Total shareholders' equity*
December 31, 2002	**5,000**	**2,298**	**23,048**	**-**	**30,346**
Capital contributions	385	2,417	-	-	2,802
Dividends	-	-	(1,000)	-	(1,000)
Net income	-	-	13,491	-	13,491
December 31, 2003	**5,385**	**4,715**	**35,539**	**-**	**45,639**
Revaluation, net of tax	-	-	-	1,277	1,277
Dividends	-	-	(1,300)	-	(1,300)
Net income	-	-	15,747	-	15,747
December 31, 2004	**5,385**	**4,715**	**49,986**	**1,277**	**61,363**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003

(Thousands of Georgian Lari)

	Notes	*Years ended December 31,* *2004*	*2003*
Cash flows from operating activities			
Interest received		36,628	32,898
Interest paid		(11,587)	(11,942)
Fees and commissions received		12,498	10,065
Fees and commissions paid		(1,624)	(1,450)
Realised gains less losses in foreign currencies		5,477	2,792
Other operating income		1,356	1,012
Salaries and benefits		(9,862)	(7,817)
Administrative and operating expenses		(6,269)	(5,992)
Cash flow from operating activities before changes in operating assets and liabilities		**26,617**	**19,566**
Net (increase)/decrease in operating assets			
Obligatory reserve with NBG		(4,733)	(5,908)
Amounts due from credit institutions		(24,483)	(1,604)
Loans to customers		(70,599)	(50,093)
Other assets		(959)	(311)
Net increase /(decrease) in operating liabilities			
Amounts owed to credit institutions		18,432	(2,361)
Amounts owed to customers		98,943	59,890
Other liabilities		1,600	971
Net cash flow from operating activities before income taxes		**44,818**	**20,150**
Corporate income tax paid		(4,042)	(1,585)
Net cash flow from operating activities		**40,776**	**18,565**
Cash flows from investing activities			
Purchases of investment securities		(1,260)	(3,239)
Proceeds from sale of investment securities		4,205	-
Net investments in lease		(3,193)	-
Purchase of investments in affiliates		-	(595)
Proceeds from subsidiaries		1,215	-
Purchases of property and equipment		(9,340)	(3,288)
Purchases of intangible assets		(382)	(42)
Net cash flow from investing activities		**(8,755)**	**(7,164)**
Cash flows from financing activities			
Capital contributions		-	2,802
Dividends paid		(1,300)	(1,000)
Net cash outflow from financing activities		**(1,300)**	**1,802**
Exchange rates changes effect on cash and cash equivalents		(5,718)	301
Net change in cash and cash equivalents		**25,003**	**13,504**
Cash and cash equivalents, beginning		**58,181**	**44,677**
Cash and cash equivalents, ending	**4**	**83,184**	**58,181**

The accompanying notes form an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal activities

JSC TBC Bank (the "Bank") was formed on December 17, 1992, as a joint stock company under the laws of Georgia. Stock of the Bank is not publicly traded. The Bank possesses general banking license №85 from the National Bank of Georgia ("NBG"), granted on January 20, 1993. The Bank's registered legal address is 121 Rustaveli Street, 383720 Borjomi, Georgia. The Bank is the largest bank in Georgia in terms of total assets calculated under local accounting rules.

The Group accepts deposits from the public and makes loans, transfers payments in Georgia and abroad, exchanges currencies and provides commercial and investments banking services to its commercial and retail customers. Its main office is in Tbilisi and it has ten branches in Tbilisi, Rustavi, Kutaisi, Poti, Borjomi, Batumi and Telavi.

The presented financial statements contain the accounts of the Bank and its subsidiary – JSC TBC Leasing (collectively referred to as the "Group").

As of December 31, 2004 and 2003, five shareholders owned 82.30% of the outstanding shares.

As of December 31, 2004 and 2003, members of the Supervisory Board controlled 42,032 shares, 78.06% of the Group. The Group had an average of 460 employees during the year (2003 – 390) and 500 employees at the end of 2004 (2003 – 431).

2. Basis of preparation

General

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

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

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates with regard to those financial statements relate to the impairment of loans, as discussed in Notes 7 and 11.

Associates accounted for under equity method

The following associates are accounted for under equity method:

2004

Associates	***Holding, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***	***Share in net assets***
JSC United Financial Corporation	43%	Georgia	September 12, 1997	Plastic cards processing	September 12, 1997	389
JSC GPIH	20%	Georgia	May 08, 2001	Pension and insurance	May 08, 2001	325
UFC International Limited	40%	Virgin Islands	March 21, 2001	Plastic cards processing	March 21, 2001	137
Total associates						**851**

(Thousands of Georgian Lari)

2003

Associates	***Holding, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***	***Share in net assets***
JSC United Financial Corporation	43%	Georgia	September 12, 1997	Plastic cards processing	September 12, 1997	356
JSC GPIH	20%	Georgia	May 08, 2001	Pension and insurance	May 08, 2001	111
UFC International Limited	40%	Virgin Islands	March 21, 2001	Plastic cards processing	March 21, 2001	137
Total associates						**604**

3. Summary of accounting policies

Principles of consolidation

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

As of December 31, 2004 the Group controlled only one material subsidiary:

2004

Associates	***Holding, %***	***Country***	***Date of incorporation***	***Industry***
JSC TBC Leasing	100%	Georgia	September 22, 2003	Finance lease

This subsidiary was not consolidated in 2003 because the effect of non-consolidation was immaterial.

Investments in and operations of another 100% owned subsidiary – TBC Broker LLC are immaterial to the Group financial statements as a whole and therefore, this subsidiary has not been consolidated. Net assets of TBC Broker LLC as of December 31, 2004 comprised 20 GEL.

Recognition of financial instruments

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

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

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

Amounts due from credit institutions

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

(Thousands of Georgian Lari)

Investment securities

The Group classified its investment securities into two categories:

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

The Group classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Group exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no market information is available for similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

   Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in income statement as gains less losses from available-for-sale securities in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

   In 2004 the Group approved change in the accounting estimate of the fair value of the Group's investments in AFS securities. As opposed to 2003, when the carrying value of the investments was equal to its historical cost, due to the lower level of liquidity and intensity of trades for these shares. In 2004 the Group performed a market revaluation of its common stock of JSC Bank of Georgia because it has been actively traded on Tbilisi Stock Exchange during 2004 and had fair market quotations. The results of valuation were recorded in the Group's income statement for the year ended December 31, 2004.

Loans to customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recognized in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in the statement of income. 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 to customers are carried net of any allowance for impairment.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least sixty days and the credit risk rate is over 20%). 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 repayment within a reasonable period.

Finance leases and income recognition

Upon inception of finance lease the Group records the net investment in leases, which consists of the sum of the minimum lease term payments, i.e. the unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. Finance lease income consists of the amortization of unearned finance lease income. Finance lease income is recognized based on a pattern reflecting constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Current lease payments due at the balance sheet date are classified as lease payments receivable in the accompanying balance sheets.

(Thousands of Georgian Lari)

Inception of the lease

The date of inception of the lease is considered to be the date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties to the transaction, and shall specifically set forth the principal terms of the transaction. If any of the principal provisions are yet to be negotiated, such a preliminary agreement or commitment does not qualify for purposes of this definition.

Assets purchased for leasing purposes

The Group records capital expenditures related to acquisition of equipment subject to leasing as "Assets purchased for leasing purposes". These expenditures are being accumulated until the equipment is ready for use and being transferred to the lessee.

Settlements on assets purchased for leasing purposes are recognized when the Company 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 amount of the obligation can be made.

Operating leases

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

Taxation

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

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

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

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

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

Investments in associates

Investments in associated companies, (generally investments of between 20% to 50% in a company's equity) where the Group exercises significant influence, are accounted for using the equity method. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Allowance for impairment of financial assets

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

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Group is

(Thousands of Georgian Lari)

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 an asset is not collectable, it is written off against the related allowance for impairment; if the amount of 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 or revalued cost 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	30 – 50
Furniture and equipment	5-8
Vehicles	4-5
Computers and communication equipment	3-5
Leasehold improvements	Contractual period, up to 10 years
Other	2-8

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. Impairment is recognized in the respective period and is included in administrative and operating expenses. Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service.

In 2004 the Group approved change in its accounting in respect with valuation of the Group's property and equipment – specifically, for the buildings. Starting from 2004 the Group values its buildings using independent appraisal versus historical cost. This change is related to historical fact that almost all buildings of the Group have been acquired in a period when either non-market conditions dominated in Georgia or the historical cost was impacted by hyperinflation. When an item of property and equipment is revaluated, the entire class of property and equipment to which that particular asset belongs, is revaluated. The increase in the asset's carrying amount as a result of revaluation is credited directly to equity – reserve on revaluation of property and equipment. Further devaluation of the assets is debited to the reserve until it is expired. Excessive decreases in value of the assets are debited to the Group's income statement as losses on devaluation of property and equipment. If the value of the Group's property and equipment increases subsequent to its original devaluation, increases are recorded in the Group's income statement until the prior losses from devaluation are expired. Further increases in value are again recorded on the reserve for revaluation of property and equipment.

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

Intangible assets

Intangible assets include licenses, computers software and internally generated intangible assets. Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided to amortize the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives range from one to ten years.

Amounts owed to NBG, credit institutions and customers

Amounts owed to NBG, credit institutions and 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. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Provisions

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

(Thousands of Georgian Lari)

Retirement and other benefit obligations

The Group 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. The Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital is recognized at cost. Share capital contributed in assets other than cash is stated at the fair value of such assets at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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 ninety days. Interest income includes coupon income earned (received and accrued) on investment and trading securities and discount accretion. 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 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. The official NBG exchange rates at December 31, 2004 and 2003, were 1.825 and 2.075 Georgian Lari to 1 USD, respectively.

Dividends

Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date, are treated as a subsequent event under IFRS 10 “Events after the balance sheet date”.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	2004	*2003*
Cash on hand	32,361	17,808
Current and deposit accounts with the NBG	13,833	4,268
Current and deposit accounts with other credit institutions	36,990	36,105
Cash and cash equivalents	**83,184**	**58,181**

(Thousands of Georgian Lari)

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2004	*2003*
Obligatory reserve with NBG	29,772	25,039
Loans issued to other credit institutions	24,782	5,649
Other amounts	5,444	2,837
	59,998	**33,525**
Less – Allowances for impairment	(317)	(345)
Amounts due from credit institutions	**59,681**	**33,180**

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

Other amounts include 5,444 GEL, which are blocked under Letters of Credit and Guarantees (2003 – 1,938).

6. Investment securities

Available-for-sale securities comprise:

	2004	*2003*
Corporate shares	7,680	2,922
Available-for-sale securities	**7,680**	**2,922**

Available-for-sale investments in corporate shares include the Group's investment in JSC Bank of Georgia carried at 7,556 GEL. As far as shares of JSC Bank of Georgia are actively traded on local stock exchange, this investment of the Group is carried at fair value applying the weighted average market quoted price for the shares of JSC Bank of Georgia effective on the local market as of December 31, 2004.

Held-to-maturity securities comprise:

	2004		*2003*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Treasury bills of the Ministry of Finance	2,677	2,907	6,882	7,118

Interest rates and maturity of these securities are as follows:

	2004		*2003*	
	%	*Maturity*	*%*	*Maturity*
Treasury bills of the Ministry of Finance	13% - 34%	2005	42% - 55%	2004

7. Loans to customers

Loans to customers comprise:

	2004	*2003*
Loans to customers	223,016	154,214
Overdrafts	4,482	1,938
	227,498	**156,152**
Less – Allowance for loan impairment	(15,102)	(9,672)
Loans to customers	**212,396**	**146,480**

(Thousands of Georgian Lari)

As of December 31, 2004, the Group had a concentration of loans represented by 47,266 GEL due from ten borrowers (21% of total gross loan portfolio) (2003 – 40,470 GEL due form ten borrowers (26% of total gross loan portfolio)). An allowance of 3,010 GEL (2003 – 5,361 GEL) was made against these loans.

Loans have been extended to the following types of customers:

	2004	*2003*
Private companies	168,696	131,064
Individuals	58,802	25,088
Loans to customers	**227,498**	**156,152**

Loans are made principally within Georgia to the following sectors:

	2004	*2003*
Trading enterprises	79,100	48,329
Manufacturing	34,018	26,072
Pawn loans	19,152	19,072
Consumer	29,938	16,767
Services	28,833	12,665
Real estate and construction	11,092	8,525
Energy	12,710	6,839
Heavy industry	4,311	4,686
Communication	7,234	2,392
Other	1,110	10,805
Loans to customers	**227,498**	**156,152**

8. Net investments in leases

Net investments in lease comprised the following at December 31:

	2004	**2003**
Gross investment in lease	4,519	-
Less: Unearned finance lease income	1,326	-
Net investment in leases	**3,193**	**-**
Less: Allowance for impairment	(95)	-
Net investments in leases	**3,098**	**-**

As of December 31, 2004, concentration of investments in five largest lessees comprised 1,694,547 GEL, or 38% of total gross investments in leases and finance income received from the investments in five largest lessees comprised 170,409 GEL or 40% of total finance income from leases.

There is no unguaranteed residual value related to lease contracts existing as of December 31, 2004. Future minimum lease payments to be received for the five years following December 31, 2004 are disclosed below:

	2004	**2003**
Within 1 year	326	-
From 1 to 5 years	4,128	-
More than 5 years	65	-
Minimum lease payments receivable	**4,519**	**-**

The difference between the gross investment in leases and the net investment in leases represents unearned finance income. Gross investment in leases as of December 31, 2004 is payable to the Group in the following currencies:

	2004	**2003**
USD	3,014	-
EUR	1,505	-
Gross investment in leases	**4,519**	**-**

(Thousands of Georgian Lari)

9. Taxation

The corporate income tax expense comprises:

	2004	2003
Current tax charge	3,486	3,101
Prior period taxation	-	(1,613)
Change in deferred tax assets	645	(602)
Less – effect of fixed assets revaluation recorded in equity	(320)	-
Income tax expense	**3,811**	**886**

Georgian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. The tax rate in 2004 and 2003 for profits other than on state securities was 20%. The tax rate for interest income on state securities was 10%.

Tax assets and liabilities consist of the following:

	2004	2003
Deferred tax assets	**-**	**635**
Deferred tax liability	10	-
Current tax liability	135	691
Total tax liabilities	**145**	**691**

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

	2004	2003
Income before tax	**19,558**	**14,377**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**3,912**	**2,875**
Prior periods taxation	-	(1,613)
Income received net of taxes	(330)	(795)
Change in unrecognised differed tax asset	325	352
Non deductible expenditures:		
- charity	(58)	51
- staff bonuses	(29)	24
Other	(9)	(8)
Income tax expense	**3,811**	**886**

(Thousands of Georgian Lari)

Deferred tax assets and liabilities as of December 31, comprise:

	2004	*2003*
Tax effect of deductible temporary differences:		
Contractual interest not accrued	320	533
Allowance for loan impairment	19	253
Investments in associates	191	185
Provisions	175	111
Intangible assets	94	76
Other assets	54	38
Gross deferred tax assets	**853**	**1,196**
Unrecognized deferred tax assets	(226)	(551)
Deferred tax asset	**627**	**645**
Tax effect of taxable temporary differences:		
Allowance for impairment	201	-
Property and equipment	430	10
Net investments in lease	6	-
Deferred tax liability	**637**	**10**
Deferred tax asset (liability), net	**(10)**	**635**

Georgia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Finance, Tax Department and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

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

10. Investments in associates and non-consolidated subsidiaries

Investments in associates and non-consolidated subsidiaries comprise:

	2004	*2003*
Subsidiaries	20	520
Associated companies	851	604
	871	**1,124**
Less – Allowance for diminution in value	(138)	(137)
Investments in associates and non-consolidated subsidiaries	**733**	**987**

For the full list of associates please refer to Note 2.

Investments in non-consolidated subsidiaries comprises investment in TBC Broker LLC (20 GEL). The Group has not consolidated this investment as the financial effect is immaterial to the Group as a whole. Investment in the TBC Broker LLC is stated at cost.

(Thousands of Georgian Lari)

11. Allowances for losses and provisions

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

	Due from credit institutions	*Net investments in lease*	*Loans to customers*	*Total*
December 31, 2002	***224***	**-**	***6,000***	**6,224**
Charge	121	-	3,838	3,959
Write-offs	-	-	(1,238)	(1,238)
Recoveries	-	-	1,072	1,072
December 31, 2003	**345**	**-**	**9,672**	**10,017**
Charge (reversal)	-	95	4,609	4,704
Write-offs	(28)	-	(255)	(283)
Recoveries	-	-	1,076	1,076
December 31, 2004	**317**	**95**	**15,102**	**15,514**

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

	Associates and non-consolidated subsidiaries	*Other assets*	*Guarantees and commitments*	*Other risks*	*Total*
December 31, 2002	**65**	**191**	**319**	**206**	**781**
Charge (reversal)	72	16	231	(206)	113
Write-offs	-	(28)	-	-	(28)
Recoveries	-	-	6	-	6
December 31, 2003	**137**	**179**	**556**	**-**	**872**
Charge (reversal)	1	243	319	-	563
Write-offs	-	(173)	-	-	(173)
Recoveries	-	-	-	-	-
December 31, 2004	**138**	**249**	**875**	**-**	**1,262**

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Group's internal guidelines, loans are written off if overdue more than 150 days.

12. Property and equipment

The movements of property and equipment were as follows:

	Land and buildings	*Fixtures and equipment*	*Assets under construction*	*Total*
Cost				
December 31, 2003	**3,954**	**5,394**	**4,557**	**13,905**
Additions	29	1,542	7,780	9,351
Revaluation	1,598	-	-	1,598
Disposals	-	(67)	-	(67)
December 31, 2004	**5,581**	**6,869**	**12,337**	**24,787**
Accumulated depreciation				
December 31, 2003	**926**	**2,391**	**-**	**3,317**
Charge	233	1,097	-	1,330
Disposals	-	(55)	-	(55)
December 31, 2004	**1,159**	**3,433**	**-**	**4,592**
Net book value:				
December 31, 2003	**3,028**	**3,003**	**4,557**	**10,588**
December 31, 2004	**4,422**	**3,436**	**12,337**	**20,195**

(Thousands of Georgian Lari)

During 2002 the Group dissolved its subsidiary and acquired its property and equipment that consisted of the Central Department Store building in Tbilisi. In 2003 the Group has started capital reconstruction process of this building in order to transfer Group's headquarters. In 2004 the capital reconstruction process was still in progress. Total payments for reconstruction in current year (7,779 GEL) include 1,587 GEL of payments to "Mshenebeli" LLC, a related party as disclosed in Note 23.

During 2004, the Group engaged an independent appraisal firm to opine on the fair market value of the Group's buildings. The resulting revaluation of 1,598 GEL is recorded, net of tax, in the revaluation reserve in shareholders' equity. The historical cost of land and buildings as of December 31, 2004 was 3,983 GEL.

13. Intangible assets

The movements of intangible assets, were as follows:

	Computer software
Cost:	
December 31, 2002	**742**
Additions	382
December 31, 2004	**1,124**
Accumulated amortization:	
December 31, 2003	**573**
Charge	184
December 31, 2004	**757**
Net book value:	
December 31, 2003	**169**
December 31, 2004	**367**

14. Other assets and liabilities

Other assets comprise:

	2004	***2003***
Prepayments	1,238	428
Trade debtors	149	363
Prepaid operating taxes	351	339
Repossessed assets	149	265
Other	324	334
	2,211	**1,729**
Less – Allowance for impairment of other assets	(250)	(179)
Other assets	**1,961**	**1,550**

Other liabilities comprise:

	2004	***2003***
Accrued expenses	4,406	2,064
Sundry creditors	252	146
Operating taxes payable	169	296
Suspense amounts	316	566
Other	68	164
Other liabilities	**5,211**	**3,236**

Accrued expenses include GEL 4,102 of accrued employee bonuses for 2004 and 2003 (2003 – GEL 1,764). Among them, bonuses payable to members of the Board of Directors for 2004 comprise GEL 1,733 (2002 – GEL 1,352).

(Thousands of Georgian Lari)

15. Amounts owed to credit institutions

Amounts owed to credit institutions comprise:

	2004	*2003*
Borrowings from international credit institutions	30,740	14,740
Current accounts	2,804	2,632
Borrowings from NBG	-	2,000
Time deposits	5,961	-
Amounts owed to credit institutions	**39,505**	**19,372**

Credit agreements with international institutions contain restrictive terms and covenants. The primary terms and covenants restrict the Group's ability to take additional borrowings, limit exposures to single borrowers, and establish minimum capital adequacy ratios. Group management is of the opinion that no violations of these terms and covenants have occurred.

Included into time deposits is a balance of GEL 5,475 (2003 – nil) with a Georgian bank – JSC Cartu Bank.

16. Amounts owed to customers

The amounts owed to customers included balances in customer current accounts, term deposits, and certain other liabilities, and include the following:

	2004	*2003*
Current accounts	105,702	58,749
Time deposits	179,171	133,331
Amounts owed to customers	**284,873**	**192,080**
Held as security against letters of credit	1,486	429
Held as security against guarantees	8,707	6,897
Held as security against loans issued	10,193	5,545

Amounts owed to customers include GEL 51,376 (18% of total portfolio) due to 30 customers (2003 – GEL 30,097 (16%)).

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

	2004	*2003*
Individuals	171,810	128,510
Private enterprises	105,342	60,336
State and budgetary organisations	4,873	2,826
Employees	2,848	408
Amounts owed to customers	**284,873**	**192,080**

An analysis of customer accounts by sector follows:

	2004	*2003*
Individuals	171,810	128,510
Trade and services	57,618	22,656
Transport and communication	4,789	2,394
Mining and natural resources processing	1,320	1,829
Energy	1,928	1,708
Construction	2,578	961
Agriculture	131	100
Other	44,699	33,922
Amounts owed to customers	**284,873**	**192,080**

(Thousands of Georgian Lari)

17. Provisions

Provisions as of December 31, comprised:

	2004	*2003*
Provisions for guarantees and credit related commitments	875	556
Provisions	**875**	**556**

18. Share capital

Movement of shares authorised, fully paid and outstanding was as follows:

	Number of shares	Nominal amount	Total
December 31, 2002	**50,000**	**100**	**5,000**
Contributed in GEL	3,847	100	385
December 31, 2003	**53,847**	**100**	**5,385**
Contributed in GEL	-	-	-
December 31, 2004	**53,847**	**100**	**5,385**

Share capital of the Group was contributed by the shareholders in Georgian Laris and US Dollars and they are entitled to dividends and any capital distribution in Georgian Laris.

The Shareholders' Meeting in May 2004, declared dividends based on the financial results for the year ended December 31, 2003. Total declared dividends that were fully paid in 2004, and totalled GEL 1,300.

No changes to share capital of the Group occurred in 2004.

19. Commitments and contingencies

Operating environment

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

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

Legal

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

(Thousands of Georgian Lari)

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

	2004	*2003*
Credit related commitments		
Guarantees	23,533	15,583
Letters of credit	-	462
Undrawn loan commitments	1,636	3,875
	25,169	**19,920**
Lease commitments		
Not later than 1 year	7	271
Later than 1 year but not later than 5 years	261	411
Later than 5 years	243	145
	511	**827**
Capital expenditure commitments	**-**	**4,810**
Less – Cash secured	(2,546)	(2,111)
Less – Provisions	(875)	(556)
Financial commitments and contingencies	**22,259**	**22,890**

For credit related commitments that are either secured by less than 100%, or issued without security, the Group estimates the likelihood of possible losses arising from credit related commitments on a specific basis.

20. Salaries and administrative and operating expenses

Salaries and benefits and administrative and operating expenses comprise:

	2004	*2003*
Salaries and bonuses	7,582	5,995
Social security costs	2,280	1,822
Salaries and benefits	**9,862**	**7,817**
Occupancy and rent	1,563	1,392
Business development	1,175	1,171
Professional services	1,056	1,167
Communication and supplies	911	841
Operating taxes	325	565
Transportation and vehicle maintenance	344	284
Other	895	572
Administrative and operating expenses	**6,269**	**5,992**

The Group does not have pension arrangements separate from the State pension system of Georgia. However, Georgian Pension and Insurance Holding ("GPIH") – a local commercial pension fund serves employees of the Group at standard terms. The Group serves as an agent. At the employees' standard contractual request, the Group a predefined portion of each employee's salary, based on the pension agreement between the employee and GPIH, and transfers the amounts to GPIH.

21. Risk management policies

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

Credit risk
The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in

(Thousands of Georgian Lari)

relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Concentration

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

	2004				*2003*			
	Georgia	*OECD*	*Other non-OECD*	*Total*	*Georgia*	*OECD*	*Other non-OECD*	*Total*
Assets:								
Cash and cash equivalents	50,727	32,274	183	83,184	22,076	35,666	439	58,181
Credit institutions	55,145	-	4,536	59,681	30,343	2,837	-	33,180
Investment securities:								
- available-for-sale	7,680	-	-	7,680	2,922	-	-	2,922
- held-to-maturity	2,677	-	-	2,677	6,882	-	-	6,882
Net investments in lease	3,098	-	-	3,098	-	-	-	-
Loans to customers	212,396	-	-	212,396	146,480	-	-	146,480
Other assets	23,256	-	-	23,256	13,929	-	-	13,929
	354,979	**32,274**	**4,719**	**391,972**	**222,632**	**38,503**	**439**	**261,574**
Liabilities:								
Due to credit institutions	8,771	30,720	14	39,505	4,640	14,730	2	19,372
Due to customers	284,873	-	-	284,873	192,080	-	-	192,080
Other liabilities	6,231	-	-	6,231	4,483	-	-	4,483
	299,875	**30,720**	**14**	**330,609**	**201,203**	**14,730**	**2**	**215,935**
Net position	**55,104**	**1,554**	**4,705**	**61,363**	**21,429**	**23,773**	**437**	**45,639**

Market risk

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

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments.

(Thousands of Georgian Lari)

Currency risk
The Group's exposure to effects of fluctuation in the currency exchange rates is mitigated through applying its general policy of having open currency position close to zero and efficient currency risk management. The Board of Directors of the Group manages currency positions centrally, setting the limits by currencies, for branches as well as in total, and authorizing all large deals trough its Treasury Department as well closing all positions of branches on the daily basis. The overall limits for Overnight Open Currency Positions managed centrally do not only comply with the minimum requirements of the NBG, but even are more conservative. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows trough extended loans and advances denominated in foreign currencies, although these loans are sourced in same currencies. Thus, despite close and overwhelming Open Currency Position management in respect with total amounts of exposures, still the Foreign Currency appreciation against Georgian Lari can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future losses. The Group's exposure to foreign currency exchange rate risk is as follows:

	2004			*2003*		
	GEL	***Foreign currencies***	***Total***	***GEL***	***Foreign currencies***	***Total***
Assets:						
Cash and cash equivalents	32,847	50,337	83,184	11,161	47,020	58,181
Credit institutions, net	51,705	7,976	59,681	25,039	8,141	33,180
Investment securities:						
- available-for-sale	7,680	-	7,680	2,922	-	2,922
- held-to-maturity	2,677	-	2,677	6,882	-	6,882
Net investments in lease	-	3,098	3,098	-	-	-
Loans to customers, gross	*20,968*	*206,530*	*227,498*	*154*	*155,998*	*156,152*
Less – Allowance for loan impairment	*(759)*	*(14,343)*	*(15,102)*	*(9)*	*(9,633)*	*(9,672)*
Loans to customers	20,209	192,187	212,396	145	146,335	146,480
Other assets	22,521	735	23,256	12,923	1,006	13,929
	137,639	**254,333**	**391,972**	**59,072**	**202,502**	**261,574**
Liabilities:						
Owed to credit institutions	38	39,467	39,505	2,074	17,298	19,372
Owed to customers	57,703	227,170	284,873	15,392	176,688	192,080
Other liabilities	4,279	1,952	6,231	3,544	939	4,483
	62,020	**268,589**	**330,609**	**21,010**	**194,925**	**215,935**
Net position	**75,619**	**(14,256)**	**61,363**	**38,062**	**7,577**	**45,639**

Foreign currencies represent mainly USD amounts, but also include currencies from other OECD countries.

The Group has extended loans and advances denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against Georgian Lari can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

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

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

	2004		*2003*	
	GEL	***USD***	***GEL***	***USD***
Group rates				
Due from credit institutions	3,5%	1,8%	4.2%	17.0%
Loans to customers	17.4%	18,6%	24.3%	20.5%
Due to credit institutions	9.7%	7.3%	12.8%	5.2%
Deposits, generally for terms up to one year	2.7%	6.0%	5.5%	8.0%
Market rates				
Credit institutions	5.0%	6.6%	2.2%	14.9%
Loans to customers	24.0%	18.7%	24.8%	21.3%
Owed to credit institutions	5.0%	6.6%	2.2%	14.9%
Deposits, generally for terms up to one year	5.2%	8.5%	4.9%	9.2%

(Thousands of Georgian Lari)

Liquidity risk

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

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

	2004							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	83,184	-	-	-	-	-	-	83,184
Credit institutions	10	56,919	-	2,752	-	-	-	59,681
Investment securities:								
- available-for-sale	-	-	-	-	-	7,680	-	7,680
- held-to-maturity	-	-	431	2,246	-	-	-	2,677
Net investments in lease	-	58	20	145	2,830	45	-	3,098
Loans to customers	-	55,675	20,870	58,207	58,751	18,848	45	212,396
	83,194	**112,652**	**21,321**	**63,350**	**61,581**	**26,573**	**45**	**368,716**
Liabilities:								
Owed to credit institutions	2,678	1,057	373	11,492	23,722	183	-	39,505
Owed to customers	101,932	87,520	23,113	61,612	10,443	253	-	284,873
	104,610	**88,577**	**23,486**	**73,104**	**34,165**	**436**	**-**	**324,378**
Net position	**(21,416)**	**24,075**	**(2,165)**	**(9,754)**	**27,416**	**26,137**	**45**	**44,338**
Accumulated gap	***(21,416)***	***2,659***	***494***	***(9,260)***	***18,156***	***44,293***	***44,338***	

	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	58,181	-	-	-	-	-	-	58,181
Credit institutions	-	26,472	277	6,376	55	-	-	33,180
Investment securities:								
- available-for-sale	-	-	-	-	-	2,922	-	2,922
- held-to-maturity	-	6,296	-	586	-	-	-	6,882
Loans to customers	-	31,917	19,995	51,439	41,887	1,039	203	146,480
	58,181	**64,685**	**20,272**	**58,401**	**41,942**	**3,961**	**203**	**247,645**
Liabilities:								
Owed to credit institutions	2,644	3,194	416	2,398	9,947	773	-	19,372
Owed to customers	56,500	61,385	14,354	52,869	6,834	138	-	192,080
	59,710	**66,633**	**15,522**	**56,362**	**16,797**	**911**	**-**	**215,935**
Net position	**(1,529)**	**(1,948)**	**4,750**	**2,039**	**25,145**	**3,050**	**203**	**31,710**
Accumulated gap	***(1,529)***	***(3,477)***	***1,273***	***3,312***	***28,457***	***31,507***	***31,710***	

(Thousands of Georgian Lari)

22. Fair values of financial instruments

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

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

Amounts due from and owed 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 the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates. For longer-term deposits, the interest rates applicable as of December 31, 2004 and 2003 reflect market rates and, consequently, the fair value approximates the carrying amounts.

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

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

Investments in associates and non-consolidated subsidiaries
Unlisted securities are stated at cost less any permanent diminution in value. The carrying amount of investments is a reasonable estimate of their fair value.

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

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

23. Related party transactions

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

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

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includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

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

	2004			***2003***		
	Related party transactions	***Percent on normal conditions***	***Total category***	***Related party transactions***	***Percent on normal conditions***	***Total category***
Assets						
Loans to customers, gross	8,320	100%	227,498	3,295	100%	156,152
Investments in associates and non-consolidated subsidiaries, gross	870	100%	870	1,124	100%	1,124
Liabilities						
Amounts owed to customers	4,200	100%	284,873	6,658	100%	192,080
Commitments and guarantees issued	284	100%	25,169	582	100%	19,920
Income statement						
Professional services expense	169	100%	1,056	174	100%	1,167
Other						
Other related party payments	1,587	100%	7,779	1,235	100%	1,639

Other related party payments comprise payments to "Mshenebeli" LLC, contractor for reconstruction works on the new head office building of the Group. These transfers have been capitalized as construction in progress in current year.

24. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on NBG requirements. As of December 31, 2004 and 2003, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2004 and 2003, was 41% and 23% respectfully. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.