

Constanta Foundation

Financial statements
31 December 2002

Together with independent auditors' report



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INDEPENDENT AUDITORS' REPORT

To the Founders of Constanta Foundation –

We have audited the accompanying balance sheet of Constanta Foundation (the “Foundation”) as of 31 December 2002, and the related statement of funding and expenditures changes in equity for the year then ended. These financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Foundation as of 31 December 2002, and the results of its operations for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

GCG Audit
Tbilisi, Georgia

By _____
Partner

Z.Nikvashvili

10 March 2002

Constanta Foundation

Statement of funding and expenses For the years ended 31 December 2002 and 2001

(Amounts in Georgian Lari)

	Notes	2002	2001 (unaudited)
Funding			
Internally generated funding		31,946	-
Donor funding of the year		<u>4,637,687</u>	<u>3,081,506</u>
Total funding of the year		<u>4,669,633</u>	<u>3,081,506</u>
Operating expenses			
Salaries and other employment benefits	6	1,303,454	862,785
Administrative expenses	7	696,692	338,183
Depreciation and amortization		138,689	54,589
Translation loss (gain)		2,041	(77,297)
Impairment of interest earning assets	5	<u>203,194</u>	<u>9,759</u>
Total operating expenses		<u>2,344,070</u>	<u>1,188,019</u>
Net funding of the year		<u>2,325,563</u>	<u>1,893,487</u>

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

Constanta Foundation

Balance sheets
31 December 2002 and 2001

(Amounts in Georgian Lari)

	Notes	2002	2001 (unaudited)
Assets			
Cash and accounts in banks	8	486,127	1,205,876
Loans to customers, net	9	5,944,692	3,064,777
Advances	10	18,770	29,342
Other receivables		21,803	15,961
Property and equipment, net	11	875,078	755,186
Intangible assets	12	6,113	3,304
Other assets		147,171	95,063
Total assets		7,499,754	5,169,509
Liabilities			
Other liabilities		9,057	4,375
Total liabilities		9,057	4,375
Equity			
Donated equity		7,458,751	5,165,134
Internally generated funding		31,946	-
Total equity	13	7,490,697	5,165,134
Total liabilities and equity		7,499,754	5,169,509

Signed by:

Tamar Lebanidze General Director

Zviad Mirianashvili Financial Manager

10 March 2003

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

Constanta Foundation

Statement of changes in equity
For the years ended 31 December 2002 and 2001

(Amounts in Georgian Lari)

	Donated equity	Internally generated funding	Total equity
31 December 2000 (unaudited)	3,271,647	-	3,271,647
Donated equity	1,893,487	-	1,893,487
31 December 2001 (unaudited)	₾	-	5,165,134
Profit for the year	-	31,946	31,946
Donated equity	2,293,617	-	2,293,617
31 December 2002	7,458,751	31,946	7,490,697

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

Constanta Foundation
Notes to financial statements
31 December 2002
(Amounts in Georgian Lari)

NOTE 1 – PRINCIPAL ACTIVITIES

Constanta Foundation (the “Foundation”) was formed in 1997 as an association under the laws of Georgia. In 1998, due to the changes in Georgian Law on Entrepreneurship has changed its legal status to foundation. The Foundation is registered by the decree # 30/7 of the Ministry of Justice, dated 4 December 1998. The Foundation accepts grants from the international non-governmental organizations and makes loans.

The Foundation’s registered legal address is 115 Tsinamdzgvrishvili St, Tbilisi, Georgia. The Foundation has separate administrative unit, 5 branches and 8 operating outlets.

The Foundation had 146 employees at the end of 2002.

NOTE 2 – 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, low liquidity levels for debt and equity markets, and continuing high rates of inflation.

The Foundation 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 Foundation’s assets. The accompanying consolidated 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 Foundation’s financial statements in the period when they become known and estimable.

NOTE 3 – BASIS OF PRESENTATION

General

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are presented in Georgian Lari unless otherwise indicated. The Foundation prepares its financial statements using the accrual basis of accounting.

NOTE 4 – PRINCIPAL ACCOUNTING POLICIES

a) Loans

Loans granted by the Foundation by providing money directly to the borrower are categorized as loans originated by the Foundation and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loans and advances are recognized when cash is advanced to borrowers.

A credit risk reserve for loan impairment is established if there is objective evidence that the Foundation will not be able to collect amounts due. The amount of the reserve is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

Constanta Foundation
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The loan loss reserve also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and consider the current economic conditions in which the borrowers operate. When a loan is uncollectable, it is written off against the related reserve for impairment; subsequent recoveries are credited profit and loss statement.

Provisions for losses in the profit and loss accounts represent the charge required in the current year to establish total reserves for losses in accordance with IFRS.

b) Tangible fixed assets

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

	<u>Years</u>
Buildings	20
Fixtures and fittings	5
Office equipment	5
Vehicles	5
Other	12

c) Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are 10 years.

d) Equity

Equity of the Foundation is comprised of donated grants and retained earnings. Donations and earnings are transferred to balance sheet from profit and loss statement.

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Georgian Lari at official NBG 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 NBG exchange rate on the date of the transaction are included in foreign exchange gain or loss.

f) Income and expense recognition

Interest income is recognized on accrual basis. Non-interest expenses are recognized at the time the transaction occurs.

g) 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 accounts of the Foundation prepared under Georgian Accounting Legislation after adjustments for tax purposes. The tax base of an asset 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 Foundation's activities. These taxes are included as a component of non-interest expense.

Constanta Foundation
Notes to financial statements
31 December 2002
(Amounts in Georgian Lari)

NOTE 5 – ALLOWANCES FOR IMPAIRMENT OF ASSETS

Movements in allowances for loan losses were as follows:

	Loans to customers
31 December 2000	13,499
Charges	9,759
Write offs	(10,008)
Recoveries	1,118
31 December 2001 (unaudited)	14,368
Charges	203,194
Write off of assets	(9,666)
Recoveries of assets written off	-
31 December 2002	207,896

Note 6 – SALARIES AND EMPLOYMENT BENEFITS

Salaries and employment benefits comprise:

	2002	2001 (unaudited)
Salaries	1,221,707	820,267
Benefits	81,747	42,518
Salaries and employment benefits	1,303,454	862,785

Note 7 – ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	2002	2001 (unaudited)
Business development	129,423	60,817
Repair and maintenance	99,914	17,086
Office rent	98,701	73,539
Office materials and supplies	70,850	40,312
Utilities	61,116	32,896
Communication	40,241	24,609
Bank charges	36,273	13,736
Transportation	21,328	17,492
Insurance	11,613	1,791
Consulting charges	11,037	2,128
Legal services	5,671	2,499
Other	110,525	51,278
Administrative expenses	696,692	338,183

Constanta Foundation
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31 December 2002
(Amounts in Georgian Lari)

NOTE 8 – CASH AND ACCOUNTS IN BANKS

Cash on hand and in banks comprise:

	2002	2001 (unaudited)
Cash	73,553	65,676
Accounts in commercial banks:		
Accounts with Bank Republic	209,009	98,387
Accounts with MBG	124,205	72,406
Accounts with Post Bank of Georgia	40,541	-
Accounts with Bank of Georgia	22,193	450,154
Accounts with TBC	8,800	515,582
Accounts with Cartu Bank	7,826	1,937
Accounts with Tbilcombank	-	1,734
	<u>412,574</u>	<u>1,140,200</u>
Total cash and accounts in banks	<u>486,127</u>	<u>1,205,876</u>

NOTE 9 – LOANS TO CUSTOMERS

Loans to customers are extended to groups as well as individuals:

	2002	2001 (unaudited)
Group loans:		
Group loans, gross	4,854,384	2,807,309
Overdue group loans	78,347	23,810
Allowance for loan losses, group loans	<u>(133,556)</u>	<u>(14,368)</u>
	4,799,175	2,816,751
Individual loans:		
Individual loans, gross	1,160,466	248,026
Overdue individual loans	59,391	-
Allowance for loan losses, group loans	<u>(74,340)</u>	<u>-</u>
	<u>1,145,517</u>	<u>248,026</u>
Loans to customers, net	<u>5,944,692</u>	<u>3,064,777</u>

NOTE 10 – ADVANCES

Advances comprise:

	2002	2001 (unaudited)
Advances to employees	3,790	-
Advances to suppliers	14,980	29,342
Total advances	<u>18,770</u>	<u>29,342</u>

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NOTE 11 – PROPERTY AND EQUIPMENT

The movements in property and equipment during 2002 were as follows:

	Buildings	Fixtures and equipment	Vehicles	Other	Total
Cost					
31 December 2001 (unaudited)	488,	291,475	58,601	6,1	844,682
Additions	-	322,707	78,247	-	400,954
Disposals	-	(162,974)	(25,528)	-	
31 December 2002	488,	451,208	111,319	6,1	1,057,134
31 December 2001 (unaudited)					
Charge for the year	28,	93,259	15,263	603	138,111
Disposal	-	(45,551)	-	-	(45,551)
31 December 2002	41,	111,016	28,874	966	182,056
Net book value					
31 December 2001 (unaudited)	476,	228,167	44,989	5,1	755,186
31 December 2002	447,	340,192	82,445	5,1	875,078

NOTE 12 – INTANGIBLE ASSETS

Movements in intangible assets during 2002 were as follows:

	Intangible assets
Cost	
31 December 2001 (unaudited)	3,578
Additions	3,653
Disposals	(279)
31 December 2002	6,952
Amortization	
31 December 2001 (unaudited)	274
Charge	578
Disposal	(14)
31 December 2002	838
Net book values	
31 December 2001 (unaudited)	3,304
31 December 2002	6,113

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NOTE 13 – EQUITY

Donated equity comprise:

	2002	2001 (unaudited)
Donations from UNHCR	2,946,509	3,556,436
Donations from USAID	1,780,848	1,505,698
Donations from CGAP	103,000	103,000
Donations from SAS	770,201	-
Donations from SC	1,858,193	-
Total donated equity	7,458,751	5,165,134

Donated equity represents grant amounts received from various international organizations (donors). Received amounts are not payable back to donors and are utilized by the Foundation in its activities.

Internally generated funding comprise:

	2002	2001 (unaudited)
Interest income received	31,946	-
Total internally generated funding	31,946	-

Accordingly, total equity comprise:

	2002	2001 (unaudited)
Donated equity	7,458,751	5,165,134
Internally generated funding	31,946	-
Total equity	7,490,697	5,165,134

(end)