TBC BANK GROUP

Independent Auditors' Report
and Consolidated Financial Statements

For the year ended 31 December 2005

TBC BANK GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 OF TBC BANK GROUP

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of TBC Bank (the "Bank") and its subsidiaries together referred to as the TBC Bank Group (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2005 were authorized for issue on 18 April 2006 by the Management Board.

On behalf of the Management Board

General Director
Vakhtang Butskhrikidze

18 April 2006

Deputy General Director
Vano Baliashvili

18 April 2006

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of TBC Bank Group:

We have audited the accompanying consolidated balance sheet of Joint Stock Company TBC Bank and its subsidiary (the "Group") as at 31 December 2005 and the related consolidated income statement and statements of cash flows and changes in equity (the "consolidated financial statements") for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The previous year's consolidated financial statements were audited by a different auditor, whose opinion dated 15 April 2005 was unqualified.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations, and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

18 April 2006

TBC BANK GROUP

CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Georgian Lari and in thousands)

	Notes	2005	2004
Interest income	4, 26	54,389	37,082
Interest expense	4, 26	(17,627)	(11,091)
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	36,762	25,991
Recovery/(provision) for impairment losses on interest bearing assets	5	7,047	(4,704)
NET INTEREST INCOME		43,809	21,287
Gain from the sale of available for sale securities	15	1,161	-
Net gain from the revaluation of available for sale securities		-	3,498
Net gain on foreign exchange operations	6	5,740	782
Fee and commission income	7	14,211	12,498
Fee and commission expense	7	(2,224)	(1,703)
Dividend income		14	288
Share in losses of associates		(14)	(38)
Other income		1,296	1,069
NET NON-INTEREST INCOME		20,184	16,394
OPERATING INCOME		63,993	37,681
OPERATING EXPENSES	8, 26	(25,422)	(17,560)
OPERATING PROFIT		38,571	20,121
Provision for impairment losses on other and off balance sheet transactions	5	(58)	(563)
INCOME BEFORE INCOME TAX		38,513	19,558
Income tax expense	9	(7,314)	(3,811)
NET INCOME		31,199	15,747

On behalf of the Management Board

General Director
Vakhtang Butskhrikidze

Deputy General Director
Vano Baliashvili

The notes on pages 8 to 43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

TBC BANK GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005
(in Georgian Lari and in thousands)

	Notes	2005	2004
ASSETS:			
Cash and balances with the National Bank of Georgia	10	94,373	75,966
Loans and advances to banks, net	11	70,466	66,899
Derivative financial instruments and spot contracts	12	2,985	-
Loans to customers, net	13, 26	369,404	212,396
Net investments in finance leases	14	8,367	3,098
Investments available for sale	15	203	7,680
Investments held to maturity	16	7,088	2,677
Investments in associates and non consolidated subsidiaries, net	17	843	733
Fixed assets, less accumulated depreciation	18	36,671	20,195
Intangible assets, net	19	346	367
Other assets, net	20	5,765	1,961
TOTAL ASSETS		596,511	391,972
LIABILITIES AND EQUITY:			
LIABILITIES			
Loans and advances from banks and credit institutions	21	98,528	39,505
Derivative financial instruments and spot contracts	12	1,592	-
Customer accounts	22, 26	380,270	284,873
Provisions	5	1,091	875
Income tax liabilities	9	7,703	145
Other liabilities	23	7,539	5,211
Total liabilities		496,723	330,609
EQUITY			
Capital		10,100	10,100
Reserves		89,688	51,263
Total equity		99,788	61,363
TOTAL LIABILITIES AND EQUITY		596,511	391,972

On behalf of the Management Board

General Director
Vakhtang Butskhrikidze

Deputy General Director
Vano Baliashvili

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Georgian Lari and in thousands)

	Note	Share capital	Share premium	Investments available for sale fair value reserve	Fixed assets revaluation reserve	Revenue reserve	Total Equity
31 December 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
Gains on revaluation of available for sale securities		-	-	3,498	-	(3,498)	-
31 December 2004	24	5,385	4,715	3,498	1,277	46,488	61,363
Share capital increase/(decrease) of:							
- ordinary shares		(641)	-	-	-	-	(641)
- preference shares		641	-	-	-	-	641
Revaluation, net of tax		-	-	-	8,726	-	8,726
Dividends		-	-	-	-	(1,500)	(1,500)
Net income		-	-	-	-	31,199	31,199
31 December 2005	24	5,385	4,715	3,498	10,003	76,187	99,788

On behalf of the Management Board

General Director
Vakhtang Butskhrikidze

Deputy General Director
Vano Baliashvili

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Georgian Lari and in thousands)

	Notes	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		53,038	36,628
Interest paid		(15,129)	(11,587)
Fees and commissions received		14,211	12,498
Fees and commissions paid		(2,224)	(1,703)
Realized gains less losses in foreign currencies		6,210	5,477
Other operating income		1,054	1,356
Salaries and benefits		(14,200)	(9,862)
Administrative and operating expenses		(10,144)	(6,190)
Cash Flow from operating activities before changes in operating assets and liabilities		32,816	26,617
Net increase in operating assets			
Obligatory reserve with the NBG		(11,056)	(4,733)
Amounts due from credit institutions		83	(29,199)
Loans to customers		(149,214)	(70,599)
Other assets		(384)	(959)
Net increase in operating liabilities			
Amounts owed to credit institutions		57,813	18,432
Amounts owed to customers		94,196	98,943
Other liabilities		(727)	1,600
Net cash flow from operating activities before income taxes		23,527	40,102
Corporate income taxes paid		(2,290)	(4,042)
Net cash flow from operating activities		21,237	36,060
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of derivative financial asset		(1,147)	-
Purchases of investment held to maturity		(3,978)	(1,260)
Proceeds from sale of investment available for sale		9,344	4,205
Net investment in finance lease		(5,076)	(3,193)
Proceeds from subsidiaries		-	1,215
Purchases of fixed assets		(7,636)	(9,340)
Purchases of intangible assets		(85)	(382)
Net cash flow from investing activities		(8,578)	(8,755)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)
(in Georgian Lari and in thousands)

	Notes	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,500)	(1,300)
Net cash outflow from financing activities		(1,500)	(1,300)
Exchange rates changes effect on cash and cash equivalents		(597)	(5,718)
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,562	20,287
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10	78,468	58,181
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	89,030	78,468

On behalf of the Management Board

General Director
Vakhtang Butskhrikidze

Deputy General Director
Vano Baliashvili

The notes on pages 8 to 43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

(in Georgian Lari and in thousands)

1. ORGANIZATION

Joint Stock Company TBC Bank (the "Bank") is a joint stock company, which was incorporated in Georgia on 17 December 1992. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under the general banking license number 85 granted on 20 January 1993. The Bank's primary business consists of commercial activities, trading with foreign currencies and originating loans and guarantees.

The registered address of the Bank is 121 Rustaveli Street, 383720 Borjomi, Georgia.

The Bank had 667 employees at the end of 2005 (2004 - 500).

As at 31 December 2005, the Bank had the following shareholders:

Shareholder	**2005 Ownership interest, %**	**2004 Ownership interest, %**
International Finance Corporation	31%	9%
TBC Holdings LTD	25%	25%
Liquid Crystal International	20%	20%
Deutshe Investitions and Entwicklungesellschaft mbH.	10%	10%
David Khazaradze	6%	7%
Badri Jafaridze	5%	15%
George Kekelidze	2%	2%
Mamuka Khazaradze	1%	12%
Total	**100%**	**100%**

The Bank is a parent company of the banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

		The Bank ownership interest		
Name	**Country of incorporation**	**2005**	**2004**	**Type of operation**
JSC TBC Leasing	Georgia	100%	100%	Finance leasing

JSC TBC Leasing (the "Company") was established on 22 September 2003 by the Vake-Saburtalo Regional Court of Tbilisi, Georgia, registration number 5/5-115. The Company's principal activity is providing finance leases to companies within Georgia.

The investments in and the 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 at 31 December 2005 comprised GEL 20 thousand.

These consolidated financial statements were authorized for issue by the Management Board on 18 April 2006.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements are presented in thousands of Georgian Lari (“GEL”) unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for revaluation of fixed assets.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowance for impairment losses and the fair value of financial instruments.

Functional currency

The functional currency of these consolidated financial statements is the Georgian Lari (“GEL”).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(in Georgian Lari and in thousands)

Investments in Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale or available for sale (see below).

Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

The following associates are accounted for under the equity method:

2005

Associates	Holding, %	Country	Date of incorporation	Industry	Date of acquisition	Share in net assets
JSC United Financial Corporation	43%	Georgia	12 September 1997	Plastic Card Processing	12 September 1997	498
JSC GPIH	20%	Georgia	8 May 2001	Pension and insurance	8 May 2001	326
UFC International Limited	40%	Virgin Islands (UK)	21 March 2001	Plastic cards processing	21 March 2001	137
Total associates						**961**

2004

Associates	Holding, %	Country	Date of incorporation	Industry	Date of acquisition	Share in net assets
JSC United Financial Corporation	43%	Georgia	12 September 1997	Plastic Card Processing	12 September 1997	389
JSC GPIH	20%	Georgia	8 May 2001	Pension and insurance	8 May 2001	325
UFC International Limited	40%	Virgin Islands (UK)	21 March 2001	Plastic cards processing	21 March 2001	137
Total associates						**851**

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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 include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Georgia with original maturity within 90 days, advances to Banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and Government trading debt securities denominated in Georgian Lari. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Georgia is not included as a cash equivalent due to restrictions on its availability (note 10).

Loans and advances to banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other Banks. Loans and advances to Banks 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 losses.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Group include forwards and swaps.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility. Loans granted by the Group with fixed maturities are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market rates is recognized in the period the loan is issued as an initial recognition adjustment discounted using market rates at inception and included in the income statement as losses on origination of assets.

Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the income statement using the effective interest method.

Loans to customers that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses in the case of the uncollectibility of loans and advances, including the repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect the amounts due to the Group and after the Group has sold all available collateral.

Non-accrual loans

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Allowance for impairment losses

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between the carrying amount and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees.

These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments available for sale

Investments available for sale represent equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, plus accrued coupon income. The Group uses quoted market prices to determine the fair value for the Group's investments available for sale. If such quotes do not exist, management's estimation is used. Interest earned on investments available for sale is reflected in the income statement as interest income on investment securities. Dividends received are included in dividend income in the income statement.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Fixed and intangible assets

Fixed and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed assets and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Buildings	30-50 years
Fixture and equipment	2-8 years
Intangible assets	2-5 years

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of fixed assets is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Georgia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

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.

Share capital and share premium

Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Share premium represents the excess of contributions over the nominal value of the shares issued.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Georgian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. This State pension system provides for the calculation of current payments by the employer calculated as a percentage of current gross salary payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Georgia.

Contingencies

Contingent liabilities are not recognized in the consolidated 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.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. Interest income also includes income earned on investments. Other income is credited to the income statement when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield.

Fee and commission income

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and other fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan.

Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

(in Georgian Lari and in thousands)

Rates of exchange

The exchange rates at the year end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2005	31 December 2004
GEL/USD	1,793	1,825
GEL/EUR	2,125	2,485

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Restatements due to the changes in IFRS

Certain restatements have been made to the consolidated financial statements as at 31 December 2004 and for the year then ended to comply with the changes to IAS 39 "Financial Instruments: Recognition and Measurement". A gain or loss on an available for sale financial asset should be recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses.

The amount of adjustment of the fair value of investments available for sale in the consolidated financial statements of the Group for the year ended 31 December 2004 amounted to GEL 3,498 thousand.

The cumulative effect of the adjustment of fair value of investments available for sale recognised in the revenue reserve in the consolidated financial statements of the Group as at 31 December 2004 amounted to a positive valuation of GEL 3,498 thousand.

Balance sheet/ Income statement item	Amount as per the previous report	Amount as per current report
Revaluation reserve for investments available for sale as at 31 December 2004	-	3,498

(in Georgian Lari and in thousands)

4. NET INTEREST INCOME

Net interest income comprises:

	2005	2004
Interest income		
Interest on loans and advances to customers	48,661	32,284
Interest on debt securities	938	2,048
Interest on loans and advances to banks	3,382	2,325
Other interest income	1,408	425
Total interest income	54,389	37,082
Interest expense		
Interest on customer accounts	(12,344)	(9,681)
Interest on deposits and loans from banks and other credit	(5,283)	(1,410)
Total interest expense	(17,627)	(11,091)
Net interest income before provision for impairment losses on interest bearing assets	**36,762**	**25,991**

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses were as follows:

	Loans and advances to banks	Net investment in finance leases	Loans and advances to customers	Total
31 December 2003	345	-	9,672	10,017
Provision	-	95	4,609	4,704
Write off assets	(28)	-	(255)	(283)
Recoveries of assets previously written off	-	-	1,076	1,076
31 December 2004	317	95	15,102	15,514
Recovery	(317)	(95)	(6,635)	(7,047)
Write off assets	-	-	(280)	(280)
Recoveries of assets previously written off	-	-	553	553
31 December 2005	**-**	**-**	**8,740**	**8,740**

(in Georgian Lari and in thousands)

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	Associates and non-consolidated subsidiaries	Total
31 December 2003	179	137	316
Provision	243	1	244
Write-off of assets	(173)	-	(173)
31 December 2004	249	138	387
Recovery	(158)	-	(158)
Write-off of assets	(264)	-	(264)
Recoveries of assets previously written off	218	-	218
31 December 2005	**45**	**138**	**183**

The movements in impairment losses for off balance sheet transactions were as follows:

	Guarantees and other commitments
31 December 2003	556
Provision	319
31 December 2004	875
Provision	216
31 December 2005	**1,091**

In accordance with the Group's internal guidelines, loans are written off if overdue more than 150 days.

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	2005	2004
Dealing differences, net	6,210	5,477
Translation differences, net	(470)	(4,695)
Total net gain on foreign exchange operations	**5,740**	**782**

(in Georgian Lari and in thousands)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2005	2004
Fee and commission income:		
Cash operations	3,357	3,175
Settlements	3,277	2,500
Foreign exchange operations	1,485	2,585
Documentary operations	1,365	1,108
Other	4,727	3,130
Total fee and commission income	**14,211**	**12,498**
Fee and commission expense:		
Correspondent bank services	(464)	(451)
Documentary operations	(278)	(79)
Settlements	(238)	(161)
Bank cards services	(155)	(110)
Foreign exchange operations	(60)	(118)
Other	(1,029)	(784)
Total fee and commission expense	**(2,224)**	**(1,703)**

8. OPERATING EXPENSES

Operating expenses comprise:

	2005	2004
Salaries and bonuses	15,201	9,862
Depreciation and amortization	2,173	1,508
Communications and supplies	1,588	911
Occupancy and rent	1,505	1,563
Business development	995	1,175
Professional services	615	1,056
Transportation and vehicle maintenance	342	344
Operating taxes	296	325
Provision for penalties for the incompliance with the Anti Money Laundering Law reporting requirements	902	-
Other	1,805	816
Total operating expenses	**25,422**	**17,560**

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 at predefined portion of each employee’s salary, based on the pension agreement between the employee and GPIH, transfers the amounts to GPIH.

(in Georgian Lari and in thousands)

9. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Georgian statutory tax regulations that differ from International Financial Reporting Standards. The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2005 and 2004 comprise:

	2005	2004
Deferred assets:		
Contractual interest not accrued	2,775	1,600
Allowance for loan impairment	460	190
Provisions	-	875
Intangible assets	285	470
Other liabilities	1,185	-
Deferred assets	4,705	3,135

	2005	2004
Deferred liabilities:		
Allowance for impairment	-	1,005
Property and equipment	6,465	545
Revaluation of fixed assets	12,505	1,600
Net investment in finance leases	95	35
Deferred liabilities	19,065	3,185
Net deferred liability	**(14,360)**	**(50)**
Net deferred tax liability at the statutory rate of 20 %	**(2,872)**	**(10)**

(in Georgian Lari and in thousands)

Relationships between tax expenses and accounting profit for the year ended 31 December 2005 and 2004 are explained as follows:

	2005	**2004**
Income before income taxes	38,513	19,558
Statutory tax rate	20%	20%
Theoretical tax at the statutory tax rate	7,702	3,912
Tax effect of permanent differences	(412)	229
Change in valuation allowance	24	(330)
Income tax expense	**7,314**	**3,811**
Current income tax expense	6,633	3,486
Deferred income tax expense	2,862	645
Effect of fixed assets revaluation recorded in equity	(2,181)	(320)
Income tax expense	**7,314**	**3,811**

	2005	**2004**
Deferred income tax (liabilities)/assets		
1 January	(10)	635
Increase in deferred income tax	(2,862)	(645)
31 December	**(2,872)**	**(10)**

Income tax assets and liabilities consist of the following:

	2005	**2004**
Current income tax liability	4,831	135
Deferred income tax liability	2,872	10
Total income tax liabilities	**7,703**	**145**

(in Georgian Lari and in thousands)

10. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

Cash and balances with the National Bank of Georgia comprise:

	2005	2004
Cash on hand	31,221	32,361
Balances with the National Bank of Georgia	63,152	43,605
Total cash and balances with the National Bank of Georgia	94,373	75,966
Loans and advances to banks in OECD countries	35,485	32,274
	129,858	108,240
Less minimum reserve deposit with the National Bank of Georgia	(40,828)	(29,772)
Total cash and cash equivalents	**89,030**	**78,468**

11. LOANS AND ADVANCES TO BANKS, NET

Loans and advances to Banks comprise:

	2005	2004
Loans to Banks	923	24,782
Advances to Banks	67,658	36,990
Other amounts	1,885	5,444
	70,466	67,216
Less allowance for impairment	-	(317)
Total loans and advances to banks, net	**70,466**	**66,899**

Movements in allowance for impairment losses for the year ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 the Group had restricted deposits totaling GEL 1,885 thousand related to guarantees and letters of credit (31 December 2004 – GEL 5,444 thousand).

(in Georgian Lari and in thousands)

12. DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS

Derivative financial instruments and spot contracts comprise:

	31 December 2005 Net fair value	
	Asset	**Liability**
Foreign currency contracts		
Forwards	1,593	1,592
Hedge Instruments		
Interest rate cap	1,392	-
	2,985	**1,592**

In order to manage the risk of floating market interest rates on funds attracted from International Financial Institutions, the Bank has concluded two Interest Rate Cap agreements with Commerzbank for a notional amount of US $ 4,000 thousand and US $ 19,000 thousand. The upper interest rates on floating USD-LIBOR-BBA concluded by both parties were 3.5% and 4.25%, respectively. The fixed amount of premium was US $ 251 thousand and US $ 383 thousand, respectively. The hedge instrument has been revalued in accordance with the quoted market prices of similar hedge instruments as at the year end.

13. LOANS TO CUSTOMERS, NET

Loans to customers comprise:

	2005	**2004**
Originated loans	375,036	225,548
Accrued interest income on loans and advances to customers	3,108	1,950
	378,144	227,498
Less allowance for impairment losses	(8,740)	(15,102)
Total loans to customers, net	**369,404**	**212,396**

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005, the Bank had a concentration of loans represented by GEL 58,038 thousand due from ten borrowers (15% of total gross loan portfolio), (2004 – GEL 47,266 thousand due from ten borrowers (21% of total gross loan portfolio)).

(in Georgian Lari and in thousands)

	2005	2004
Analysis by industry		
Trade and service	181,245	107,008
Real estate and construction	58,114	10,997
Manufacturing	57,107	33,726
Consumer	28,954	29,681
Pawn loans	17,874	18,988
Communication	17,660	7,172
Energy	12,326	12,601
Heavy industry	-	4,274
Other	1,756	1,101
Accrued interest income on loans and advances to customers	3,108	1,950
	378,144	227,498
Less allowance for impairment losses	(8,740)	(15,102)
Total loans to customers, net	**369,404**	**212,396**

14. NET INVESTMENT IN FINANCE LEASES

Net investment in lease comprised:

	2005	2004
Gross investment in finance leases	11,543	4,519
Less unearned finance lease income	(3,176)	(1,326)
Net investment in finance leases	8,367	3,193
Less allowance for impairment	-	(95)
Net investment in finance leases	**8,367**	**3,098**

Certain leases receivable as at 31 December 2005 were pledged as collateral for a loan obtained from the International Finance Corporation. The amount of net investment in finance leases pledged under collateral comprised GEL 3,140 thousand. (31 December 2004 – nil).

The minimum lease payments due from customers under finance leases as at 31 December 2005 and 31 December 2004 are as follows:

	2005	2004
Within 1 year	649	326
From 1 to 5 years	10,894	4,128
More than 5 years	-	65
Minimum finance lease payments receivable	**11,543**	**4,519**

(in Georgian Lari and in thousands)

15. INVESTMENTS AVAILABLE FOR SALE

Investment available for sale comprised:

	2005	2004
Equity securities	203	7,680
Total investments available for sale	**203**	**7,680**

As at 31 December 2004 investments available for sale in equity securities included the Group's investment in JSC Bank of Georgia carried at GEL 7,556 thousand. Those equity securities were sold in May, 2005 and the gain from the amounted to GEL 1,161 thousand.

16. INVESTMENTS HELD TO MATURITY

Investment held to maturity comprised:

	2005	
	Nominal Value	Carrying value
Promissory notes of Tbilaviamsheni Ltd	5,288	5,050
Treasury bills of the Ministry of Finance	2,072	2,038
Total investments held to maturity	**7,360**	**7,088**

	2004	
	Nominal Value	Carrying value
Treasury bills of the Ministry of Finance	2,907	2,677
Total investments held to maturity	**2,907**	**2,677**

(in Georgian Lari and in thousands)

17. INVESTMENTS IN ASSOCIATES AND NON CONSOLIDATED SUBSIDIARIES

Investment in associated and non consolidated subsidiaries comprised the following as at 31 December:

	2005		2004	
	Held %	**Amount**	**Held %**	**Amount**
TBC Broker LLC	100%	20	100%	20
JSC United Financial Corporation	43%	498	43%	389
JSC GPIH	20%	326	20%	325
UFC International Limited	40%	137	40%	137
		981		871
Less allowance for impairment losses		(138)		(138)
Total investments in associates		**843**		**733**

Investments in non consolidated subsidiaries comprise the investment in TBC Broker LLC of GEL 20 thousand. The group has not consolidated this investment as the financial effect is immaterial to the Group as a whole. The investment in TBC Broker LLC is stated at cost.

18. FIXED ASSETS, NET

	Land and buildings	Fixture and equipment	Construction in progress	Total
At cost				
31 December 2004	5,581	6,869	12,337	24,787
Additions	12,916	5,239	3,954	22,109
Revaluation increase	10,907	-	-	10,907
Disposals	(130)	(1,266)	(14,473)	(15,869)
31 December 2005	29,274	10,842	1,818	41,934
Accumulated depreciation				
31 December 2004	1,159	3,433	-	4,592
Charge for the year	352	1,715	-	2,067
Eliminated on disposals	(130)	(1,266)	-	(1,396)
31 December 2005	1,381	3,882	-	5,263
Net book value				
31 December 2005	**27,893**	**6,960**	**1,818**	**36,671**
31 December 2004	**4,422**	**3,436**	**12,337**	**20,195**

The Group's buildings were revalued based on an independent expert's appraisal in December 2005. The fair values of revalued items were determined directly by reference to observable prices in an active market and recent market transactions on arm's length terms.

(in Georgian Lari and in thousands)

Had the buildings been carried under the cost method the book value would be GEL 18,367 thousand. The total revaluation surplus net of tax recognized in equity amounted to GEL 8,726 thousand. The gross carrying value of fully depreciated fixture and equipment still in use comprises GEL 606 thousand.

19. INTANGIBLE ASSETS, NET

	Computer software
At cost	
31 December 2004	1,124
Additions	85
31 December 2005	1,209
Accumulated amortization	
31 December 2004	757
Charge for the year	106
31 December 2005	863
Net book value	
31 December 2005	**346**
31 December 2004	**367**

20. OTHER ASSETS, NET

Other assets comprise:

	2005	**2004**
Prepayments	3,901	1,238
Prepaid operating taxes	700	351
Assets purchased for leasing purposes	405	54
Trade debtors	60	149
Repossessed assets	45	149
Other	699	269
	5,810	2,210
Less allowance for impairment losses on other assets	(45)	(249)
Total other assets, net	**5,765**	**1,961**

(in Georgian Lari and in thousands)

21. LOANS AND ADVANCES FROM BANKS AND CREDIT INSTITUTIONS

Loans and advances from banks and credit institutions comprise:

	2005	2004
Borrowings from international credit institutions	66,203	30,254
Time deposits	27,882	5,929
Correspondent accounts of other banks	2,874	2,804
Accrued interest expense	1,569	518
Total loans and advances from banks and credit institutions	**98,528**	**39,505**

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2005	2004
Repayable on demand	140,226	105,702
Time deposits	236,216	176,544
Accrued interest expense on customer accounts	3,828	2,627
Total customer accounts	**380,270**	**284,873**

As at 31 December 2005 customer accounts of GEL 14,440 thousand were held as security against letters of credit, guarantees and loans issued. (31 December 2004 – GEL 20,386 thousand).

Analysis of customer accounts by sector:

	2005	2004
Individuals	225,499	170,226
Trade and service	74,227	57,087
Transport and communication	19,830	4,745
Construction	3,092	2,554
Energy	2,734	1,910
Mining and natural resource processing	896	1,308
Agriculture	731	130
Government	261	-
Other	49,172	44,286
Accrued interest expense on customer accounts	3,828	2,627
Total customer accounts	**380,270**	**284,873**

(in Georgian Lari and in thousands)

23. OTHER LIABILITIES

Other liabilities comprise:

	2005	2004
Accrued expenses	4,745	4,406
Operating taxes payable	684	169
Provision for penalties for the incompliance with the Anti Money Laundering Law reporting requirements	902	-
Sundry creditors	588	252
Suspense amounts	293	316
Other creditors	327	68
Total other liabilities	**7,539**	**5,211**

The provision for penalties in the amount of GEL 902 thousand represents the provision for possible penalties due to the non-compliance with the reporting requirements of the Anti Money Laundering Law introduced by the National Bank of Georgia on 30 December 2004 (see note 25). The Bank did not have effective procedures in place for the timely reporting of transactions falling under the reporting requirement criteria of the Anti Money Laundering Law.

24. SHARE CAPITAL

As at 31 December 2005 the Group's share capital comprised the following:

	Authorized share capital	Unissued share capital	Total share capital
Ordinary shares	5,027	283	4,744
Preferred shares	641	-	641
Total	**5,668**	**283**	**5,385**

As at 31 December 2004 the Group's share capital comprised the following:

	Authorized share capital	Unissued share capital	Total share capital
Ordinary shares	**5,385**	**-**	**5,385**

As at 31 December 2005 the Group's authorized shareholders' capital comprised 50,272 ordinary shares with a par value of GEL 100 per share. (6,409 preferred shares with a par value of GEL 100 and 53,385 ordinary shares with a par value of GEL 100 in 2004). During 2005 the authorized share capital of the Group was increased by GEL 283 thousand, which was not issued as at 31 December 2005.

(in Georgian Lari and in thousands)

25. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet. The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

As at 31 December the Group's financial commitments and contingencies comprised the following:

	2005	2004
Credit related commitments		
Guarantees and letters of credit	32,023	23,533
Undrawn loan commitment	20,966	1,636
	52,989	25,169
Less allowance for impairment	(1,091)	(875)
Credit related commitments, net	**51,898**	**24,294**

Capital commitments **-** The Group had no material commitments for capital expenditures outstanding as at 31 December 2005 and 2004.

Legal proceedings **-** As at 31 December 2005 and 2004 the Group was not engaged in any litigation proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes **-** Georgian tax authorities are increasingly directing their attention to the business community as a result of the overall economic Georgian environment. In respect of this, the local and national tax environment in Georgia is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Georgian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could include taxes, penalties and interest, and these amounts could be material.

While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years, which are not always clearly written.

Management believes that the Group is in compliance with the tax laws affecting its operations, however, the risk remains that a relevant authority could take a different position with regard to interpretive issues and the effect could be significant.

At the end of the year 2005, the Group was not in line with the current liquidity ratio requirements of the National Bank of Georgia. Management believes that in accordance with the regulations of the NBG such incompliance will not lead to the imposition of penalties and fines and/or to the revocation of the banking license.

As more fully described in note 23, for the year ended 31 December 2005 the Group did not comply with the reporting requirements of the Anti Money Laundering Law introduced by the NBG on 30 December 2004. Management believes that the provision created is adequate to provide for any penalties that may be levied by the NBG for non compliance. Management also believes that the Group is in the full compliance with the Anti Money Laundering Law subsequent to the year end.

Pensions and retirement plans - Employees receive pension benefits from Georgia in accordance with the laws and regulations of the country. As at 31 December 2005 and 2004 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group's principal business activities are within Georgia. Laws and regulations affecting the business environment in Georgia are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group (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;
(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 (also non-executive directors and close members of the families of such individuals);
(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;
(f) Parties with joint control over the Group;
(g) Joint ventures in which the Group is a venture; and
(h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

(in Georgian Lari and in thousands)

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

	2005		**2004**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers, net	13,957	369,404	8,320	212,396
Customer accounts	7,407	380,270	4,200	284,873
Commitments and guarantees issued, net	2,397	51,898	284	24,294
Payments to related parties	-	-	1,587	7,779

During the year ended 31 December 2005 the Group originated loans and advances to related party customers amounting to GEL 23,764 thousand (2004: GEL 10,830 thousand), and received loans and advances repaid of GEL 18,127 thousand (2004: GEL 6,481 thousand).

During the year ended 31 December 2005 the Group received deposits from related party customers of GEL 300,742 thousand (2004: GEL 158,654 thousand) and repaid deposits totaling GEL 297,535 thousand (2004: GEL 160,433 thousand).

Transactions with related parties entered into by the Group during the year ended 31 December 2005 and outstanding as at 31 December 2005 and 2004 were made in the normal course of business and mostly under arms length conditions.

As at 31 December 2004 other related payments to related parties comprise payments to Mshenebeli LLC, a related party, the contractor for the reconstruction works on the new head office building of the Bank. These payments were capitalized to buildings construction in the year 2004.

Included in the income statement for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	2005		**2004**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	124	54,389	64	37,082
Interest expense	(104)	(17,627)	(56)	(11,091)
Professional services expense	-	(615)	(169)	(1,056)

(in Georgian Lari and in thousands)

	2005		2004	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
Short-term employee benefits	**3,959**	**15,201**	**2,065**	**9,862**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exist for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and 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 fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	31 December 2005		31 December 2004	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of Georgia	94,373	94,373	75,966	75,966
Loans and advances to banks, net	70,466	70,466	66,899	66,899
Derivative financial instruments and spot contracts	2,985	2,985	-	-
Loans and advances to customers, net	369,404	369,404	212,396	212,396
Other assets, net	5,765	5,765	1,961	1,961
Loans and advances from banks and credit institutions	98,528	98,528	39,505	39,505
Customer accounts	380,270	380,270	284,873	284,873
Other liabilities	7,539	7,539	5,211	5,211

(in Georgian Lari and in thousands)

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28. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total 8% and tier 1 capital 4% to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of Georgia
0%	State debt securities
20%	Loans and advances to Banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year

As at 31 December 2005 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinated to the repayments of the Group's liabilities to all other creditors.

The Group's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount	For Capital Adequacy purposes	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2005				
Total capital	106,958	98,218	21%	12%
Tier 1 capital	99,788	86,287	18%	8%
As at 31 December 2004				
Total capital	68,663	53,149	17%	12%
Tier 1 capital	61,363	56,588	18%	8%

(in Georgian Lari and in thousands)

29. 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 exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

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 expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

			2005			2004
	GEL	USD	Other currencies	GEL	USD	Other currencies
ASSETS						
Loans and advances to banks, net	1,24%	2,5%	2,5%	3,5%	1,8%	1,8%
Loans to customers, net	16,1%	16,7%	17%	17,4%	18,6%	19%
LIABILITIES						
Loans and advances from banks and credit institutions	8%	5,5%	7%	2,7%	7,3%	6%
Customer accounts	8,5%	6,4%	7%	9,7%	6%	6%

(in Georgian Lari and in thousands)

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
ASSETS								
Loans and advances to banks, net	61,340	6,772	1,637	717	-	-	-	70,466
Loans to customers, net	67,454	51,243	92,364	140,177	17,780	386	-	369,404
Net investment in finance leases	119	43	414	7,791	-	-	-	8,367
Investments held to maturity	113	5,049	1,926	-	-	-	-	7,088
Investments available for sale	-	-	-	203	-	-	-	203
Total interest bearing assets	129,026	63,107	96,341	148,888	17,780	386	-	455,528
Cash and balances with the NBG	53,545	-	-	-	-	-	40,828	94,373
Derivative financial instruments and spot contracts	1,593	-	-	-	1,392	-	-	2,985
Investments in associates	-	-	-	-	843	-	-	843
Fixed assets, net	-	-	-	-	36,671	-	-	36,671
Intangible assets, net	-	-	-	346	-	-	-	346
Other assets, net	5,765	-	-	-	-	-	-	5,765
TOTAL ASSETS	**189,929**	**63,107**	**96,341**	**149,234**	**56,686**	**386**	**40,828**	**596,511**
LIABILITIES								
Loans and advances from banks and credit institutions	27,362	5,985	7,333	45,731	12,117	-	-	98,528
Customer accounts	100,586	34,139	89,189	17,807	925	-	-	242,646
Total interest bearing liabilities	127,948	40,124	96,522	63,538	13,042	-	-	341,174
Derivative financial instruments and spot contracts	1,592	-	-	-	-	-	-	1,592
Customer accounts	137,624	-	-	-	-	-	-	137,624
Provisions	-	-	-	-	-	-	1,091	1,091
Income tax liabilities	-	-	7,703	-	-	-	-	7,703
Other liabilities	6,481	194	805	59	-	-	-	7,539
TOTAL LIABILITIES	**273,645**	**40,318**	**105,030**	**63,597**	**13,042**	**-**	**1,091**	**496,723**
Liquidity gap	(83,716)	22,789	(8,689)	85,637	43,644			
Interest sensitivity gap	1,078	22,983	(181)	85,350	4,738			
Cumulative interest sensitivity gap	1,078	24,061	23,880	109,230	113,968			
Cumulative interest sensitivity gap as a percentage of total assets	0%	4%	4%	18%	19%			

(in Georgian Lari and in thousands)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2004
ASSETS								
Loans and advances to banks, net	64,147	-	2,752	-	-	-	-	66,899
Loans to customers, net	55,675	20,870	58,207	58,751	18,848	45	-	212,396
Net investment in finance leases	58	20	145	2,830	45	-	-	3,098
Investments held to maturity	-	431	2,246	-	-	-	-	2,677
Investments available for sale	-	-	-	-	7,680	-	-	7,680
Total interest bearing assets	119,880	21,321	63,350	61,581	26,573	45	-	292,750
Cash and balances with the NBG	46,194	-	-	-	-	-	29,772	75,966
Investments in associates	-	-	-	-	733	-	-	733
Fixed assets, net	-	-	-	-	20,195	-	-	20,195
Intangible assets, net	-	-	-	367	-	-	-	367
Other assets, net	1,961	-	-	-	-	-	-	1,961
TOTAL ASSETS	**168,035**	**21,321**	**63,350**	**61,948**	**47,501**	**45**	**29,772**	**391,972**
LIABILITIES								
Loans and advances from banks and credit institutions	3,735	373	11,492	23,722	183	-	-	39,505
Customer accounts	83,750	23,113	61,612	10,443	253	-	-	179,171
Total interest bearing liabilities	87,485	23,486	73,104	34,165	436	-	-	218,676
Customer accounts	105,702	-	-	-	-	-	-	105,702
Provisions	-	-	-	-	-	-	875	875
Income tax liabilities	145	-	-	-	-	-	-	145
Other liabilities	5,211	-	-	-	-	-	-	5,211
TOTAL LIABILITIES	**198,543**	**23,486**	**73,104**	**34,165**	**436**	**-**	**875**	**330,609**
Liquidity gap	(30,508)	(2,165)	(9,754)	27,783	47,065			
Interest sensitivity gap	32,395	(2,165)	(9,754)	27,416	26,137			
Cumulative interest sensitivity gap	32,395	30,230	20,476	47,892	74,029			
Cumulative interest sensitivity gap as a percentage of total assets	8%	8%	5%	12%	19%			

(in Georgian Lari and in thousands)

The majority of the Group's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the NBG. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD	Other currencies	Currency undefined	31 December 2005 Total
ASSETS					
Cash and balances with the NBG	77,385	12,532	4,456	-	94,373
Loans and advances to banks, net	2,109	44,637	23,720	-	70,466
Derivative financial instruments and spot contracts	-	1,392	1,593	-	2,985
Loans to customers, net	101,044	265,163	3,197	-	369,404
Net investment in finance leases	160	7,790	417	-	8,367
Investments available for sale	203	-	-	-	203
Investments held to maturity	2,038	5,050	-	-	7,088
Investments in associates	843	-	-	-	843
Fixed assets, net	36,671	-	-	-	36,671
Intangible assets, net	346	-	-	-	346
Other assets, net	5,064	690	11	-	5,765
TOTAL ASSETS	**225,863**	**337,254**	**33,394**	**-**	**596,511**
LIABILITIES					
Loans and advances from banks and credit institutions	13,281	73,003	12,244	-	98,528
Derivative financial instruments and spot contracts	-	1,592	-	-	1,592
Customer accounts	89,785	266,892	23,593	-	380,270
Provisions	-	-	-	1,091	1,091
Income tax liability	7,703	-	-	-	7,703
Other liabilities	6,933	537	69	-	7,539
TOTAL LIABILITIES	**117,702**	**342,024**	**35,906**	**1,091**	**496,723**
OPEN POSITION	**108,161**	**(4,770)**	**(2,512)**		

(in Georgian Lari and in thousands)

	GEL	Foreign currency	Currency undefined	31 December 2004 Total
ASSETS				
Cash and balances with the NBG	62,328	13,638	-	75,966
Loans and advances to Banks, net	22,205	44,694	-	66,899
Loans to customers, net	20,209	192,187	-	212,396
Net investment in finance lease	-	3,098	-	3,098
Investments available for sale	7,680	-	-	7,680
Investments held to maturity	2,677	-	-	2,677
Investments in associates	733	-	-	733
Fixed assets, net	-	-	20,195	20,195
Intangible assets, net	-	-	367	367
Other assets, net	1,226	735	-	1,961
TOTAL ASSETS	**117,058**	**254,352**	**20,562**	**391,972**
LIABILITIES				
Loans and advances from banks and credit institutions	38	39,467	-	39,505
Customer accounts	57,703	227,170	-	284,873
Provisions	-	-	875	875
Income tax liability	145	-	-	145
Other liabilities	4,134	1,077	-	5,211
TOTAL LIABILITIES	**62,020**	**267,714**	**875**	**330,609**
OPEN POSITION	**55,038**	**(13,362)**		

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimations 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. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Management Board of the Group conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Limits on the level of credit risk by borrower are reviewed and approved by the Supervisory Board twice a year. Actual exposure per borrower against limits is monitored on new loans granted. The Credit Committee may initiate a change in the limits, however this must be approved by the Supervisory Board.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews, especially where no such security can be obtained.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(in Georgian Lari and in thousands)

Geographical concentration

The Assets and Liabilities Management Committee exercises control over the risk in the legislation and regulatory arena and assess its influence on the Group's activities. This approach allows the Group to minimize potential losses from investment climate fluctuations in Georgia.

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

	Georgia	OECD countries	Other non-OECD countries	Undefined	31 December 2005 Total
ASSETS					
Cash and balances with the NBG	94,373	-	-	-	94,373
Loans and advances to banks, net	19,361	37,696	13,409	-	70,466
Derivative financial instruments and	-	2,985	-	-	2,985
Loans to customers, net	369,404	-	-	-	369,404
Net investment in finance lease	8,367	-	-	-	8,367
Investments available for sale	203	-	-	-	203
Investments held to maturity	7,088	-	-	-	7,088
Investments in associates	843	-	-	-	843
Fixed assets, net	36,671	-	-	-	36,671
Intangible assets, net	346	-	-	-	346
Other assets, net	5,765	-	-	-	5,765
TOTAL ASSETS	**542,421**	**40,681**	**13,409**	**-**	**596,511**
LIABILITIES					
Loans and advances from banks and credit institutions	20,450	67,459	10,619	-	98,528
Derivative financial instruments and spot contracts	-	1,592	-	-	1,592
Customer accounts	380,270	-	-	-	380,270
Provisions	-	-	-	1,091	1,091
Income tax liability	7,703	-	-	-	7,703
Other liabilities	7,539	-	-	-	7,539
TOTAL LIABILITIES	**415,962**	**69,051**	**10,619**	**1,091**	**496,723**
NET POSITION	**126,459**	**(28,370)**	**2,790**		

(in Georgian Lari and in thousands)

	Georgia	OECD countries	Other non-OECD countries	Undefined	31 December 2004 Total
ASSETS					
Cash and balances with the NBG	75,966	-	-	-	75,966
Loans and advances to Banks, net	29,906	32,274	4,719	-	66,899
Loans to customers, net	212,396	-	-	-	212,396
Net investment in lease	3,098	-	-	-	3,098
Investments available for sale	7,680	-	-	-	7,680
Investments held to maturity	2,677	-	-	-	2,677
Investments in associates	733	-	-	-	733
Fixed assets, net	-	-	-	20,195	20,195
Intangible assets, net	-	-	-	367	367
Other assets, net	1,961	-	-	-	1,961
TOTAL ASSETS	334,417	32,274	4,719	20,562	391,972
LIABILITIES					
Loans and advances from banks and credit institutions	8,771	30,720	14	-	39,505
Customer accounts	284,873	-	-	-	284,873
Provisions	875	-	-	-	875
Income tax liability	145	-	-	-	145
Other liabilities	5,211	-	-	-	5,211
TOTAL LIABILITIES	299,875	30,720	14	-	330,609
NET POSITION	34,542	1,554	4,705		