BASIS BANK GROUP

Independent Auditors' Report
and Consolidated Financial Statements

For the year ended 31 December 2005

BASIS 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

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 Joint Stock Company Basis Bank (the "Bank") and its subsidiary, together referred to as the Basis 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 24 March 2006 by the Management Board.

On behalf of the Management Board

General Director **Zurab Tsikhistavi**	**Director** **Irakli Bokolishvili**
24 March 2006	**24 March 2006**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Basis Bank Group:

We have audited the accompanying consolidated balance sheet of Joint Stock Company Basis Bank (the "Bank") and its subsidiary ("Basis Bank Group" or the "Group") as at 31 December 2005 and the related consolidated income statement and consolidated 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.

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 cash flows for the year then ended, in accordance with International Financial Reporting Standards.

24 March 2006

BASIS BANK GROUP

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

	Notes	2005	2004
Interest income	4, 21	4,313	2,291
Interest expense	4, 21	(953)	(668)
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	3,360	1,623
Allowance for impairment losses on interest bearing assets	5, 21	(271)	(402)
NET INTEREST INCOME		3,089	1,221
Net gain on foreign exchange operations	6	884	177
Fee and commission income	7	1,533	729
Fee and commission expense	7	(521)	(320)
Gain from trading securities		18	535
Other income		-	93
NET NON-INTEREST INCOME		1,914	1,214
OPERATING INCOME		5,003	2,435
OPERATING EXPENSES	8, 21	(2,092)	(1,294)
OPERATING PROFIT		2,911	1,141
Allowance for impairment losses on other and off balance sheet transactions	5	(10)	(1)
INCOME BEFORE INCOME TAX		2,901	1,140
Income tax expense	9	(568)	(184)
NET INCOME		2,333	956

On behalf of the Management Board

General Director **Director**

The notes on pages 7 to 37 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

BASIS 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	10,828	7,109
Loans and advances to banks, net	11	6,335	5,651
Loans to customers, net	12, 21	29,082	14,743
Investments available for sale		3	60
Investments held to maturity		-	240
Fixed assets, net	13	3,806	1,635
Intangible assets, net	14	120	135
Other assets, net	15	514	256
TOTAL ASSETS		50,688	29,829
LIABILITIES AND EQUITY:			
LIABILITIES			
Loans and advances from banks	16	1,485	7
Customer accounts	17, 21	37,200	20,142
Income tax liabilities	9	404	27
Other liabilities	18	179	166
Total liabilities		39,268	20,342
EQUITY			
Share capital	19	5,025	5,025
Retained earnings		6,395	4,462
Total shareholders’ equity		11,420	9,487
TOTAL LIABILITIES AND EQUITY		50,688	29,829

On behalf of the Management Board

General Director	**Director**

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

	Share capital	Retained earnings	Total equity
31 December 2003	5,025	3,906	8,931
Dividends declared on ordinary shares	-	(400)	(400)
Net profit	-	956	956
31 December 2004	5,025	4,462	9,487
Dividends declared on ordinary shares	-	(400)	(400)
Net profit	-	2,333	2,333
31 December 2005	5,025	6,395	11,420

On behalf of the Management Board

General Director **Director**

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BASIS BANK GROUP

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		4,253	2,273
Interest paid		(873)	(569)
Income received from investment securities		18	535
Fees and commission received		1,533	729
Fees and commission paid		(513)	(320)
Other operating income received		-	91
Operating expenses paid		(910)	(1,133)
Income tax paid		(191)	(160)
Cash flows from operating activities before changes in operating assets and liabilities		3,317	1,446
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with National Bank of Georgia		(1,261)	(821)
Loans and advances to banks		240	(777)
Loans and advances to customers		363	(7,128)
Investments held to maturity		(14,812)	1,949
Other assets		-	59
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		1,466	7
Customer accounts		16,990	8,392
Other liabilities		-	24
Net cash outflow from operating activities		6,303	3,151
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds on sales of other assets		-	25
Purchase of fixed and intangible assets		(2,513)	(671)
Net cash outflows from investing activities		(2,513)	(646)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(400)	(400)
Net cash outflow from financing activities		(400)	(400)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,390	2,105
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10	9,897	7,615
Effect of foreign exchange rate changes		97	177
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	13,384	9,897

On behalf of the Management Board

General Director **Director**

The notes on pages 7 to 37 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 Basis Bank (the "Bank") is a joint stock company, which was incorporated in Georgia in the year 1993. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under the general banking license number 173. The Bank's primary business consists of commercial activities, trading with foreign currencies and originating loans.

The registered address of the Bank is Ketevan Tsamebuli 1, 0103, Tbilisi, Georgia.

As at 31 December 2005 the Bank had branches in Tbilisi, Telavi and Batumi.

The number of employees of the Bank at 31 December 2005 and 2004 was 97 and 55, respectively.

As at 31 December 2005, the following individuals owned the share capital of the Bank:

Shareholder	**2005 Ownership interest, %**	**2004 Ownership interest, %**
Zurab Tsikhistavi	16.36%	16.36%
Eldar Mildiani	11.62%	11.62%
Zurab Nishnianidze	10.00%	11.94%
Murman Ambroladze	7.74%	7.74%
Archil Maziashvili	7.44%	5.50%
Ketevan Soselia	6.60%	6.60%
Taras Nijaradze	5.38%	5.38%
Gia Petriashvili	5.37%	5.37%
Ketevan Skhirtladze	5.22%	5.22%
Goderzi Meladze	5.19%	5.19%
Tengiz Maziashvili	5.15%	5.15%
Other individuals	13.91%	13.91%
Total	**100%**	**100%**

The Bank has owned 100% of shares of Ltd Basis (the "Subsidiary") since the date of its establishment on 14 December 1999. The registered number of the subsidiary in Georgia is 06/4-223. The principal activity of the subsidiary is security brokerage operations.

The Basis Bank Group (the "Group") comprises of the Bank and its subsidiary.

These consolidated financial statements were authorized for issue by the Management Board on 24 March 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.

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 allowances 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 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.

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 GEL. 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 accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

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.

All loans originated are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. 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 debt investments that are intended to be held for an indefinite period of time. The securities are measured at fair value. Gains or losses on available-for-sale securities are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the securities are derecognized, at which time the cumulative gains or losses previously recognized in equity are recognized in the income statement. However, interest calculated using the effective interest method is recognized in the income statement.

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 use appropriate valuation techniques.

When a decline in the fair value of available-for-sale investments has been recognized directly in equity and there is objective evidence that the investments are impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement even though the securities have not been derecognized. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal 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	2%
Computers	20%
Furniture and equipment	20%
Vehicles	20%
Other fixed assets	10%
Intangible assets	10%

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.

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

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.

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. In addition such pension system provides for the calculation of current payments by the employer as a percentage of current total disbursements to staff. Such 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, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

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.

(in Georgian Lari and in thousands)

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.

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.

Changes in IFRS

The International Accounting Standards Board has amended a number of IAS's and issued certain IFRS's effective for the reporting period beginning 1 January 2005. The effect of these changes was not significant for the consolidated financial statements of the Group for the year ended 31 December 2005.

IAS 39 "Financial Instruments: Recognition and Measurement" was amended in July 2005 and is effective for the reporting period beginning 1 January 2006, and IFRS 7 "Financial Instruments: Disclosures" was introduced in August 2005 and is effective for the reporting period beginning 1 January 2007.

(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	3,992	2,175
Interest on debt securities	110	35
Interest on loans and advances to banks	211	81
Total interest income	**4,313**	**2,291**
Interest expense		
Interest on customer accounts	(914)	(651)
Interest on deposits and loans from banks	(39)	(17)
Total interest expense	**(953)**	**(668)**
Net interest income before provision for impairment losses on interest bearing assets	**3,360**	**1,623**

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses were as follows:

	Loans and advances to banks	Loans and advances to customers	Total
31 December 2003	-	704	704
Allowance	16	386	402
Write off of assets	-	(817)	(817)
Recoveries of assets previously written off	-	120	120
31 December 2004	16	393	409
Allowance / (Recovery)	(16)	287	271
Recoveries of assets previously written off	-	332	332
31 December 2005	**-**	**1,012**	**1,012**

(in Georgian Lari and in thousands)

	Other assets	Guarantees issued	Total
31 December 2003	77	41	118
Allowance / (Recovery)	(46)	47	1
Write off of assets	-	(4)	(4)
31 December 2004	31	84	115
Allowance / (Recovery)	36	(26)	10
Recoveries of assets previously written off	-	2	2
31 December 2005	**67**	**60**	**127**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	2005	2004
Dealing differences, net	1,103	738
Translation differences, net	(219)	(561)
Total net gain on foreign exchange operations	**884**	**177**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2005	2004
Fee and commission income:		
Cash operations	827	547
Documentary operations	170	78
Plastic cards operations	102	17
Other	434	87
Total fee and commission income	**1,533**	**729**
Fee and commission expense:		
Settlements	(282)	(136)
Cash operations	(120)	(84)
Foreign exchange operations	(22)	(43)
Other	(97)	(57)
Total fee and commission expense	**(521)**	**(320)**

(in Georgian Lari and in thousands)

8. OPERATING EXPENSES

Operating expenses comprise:

	2005	2004
Salaries and bonuses	536	318
Depreciation and amortization	269	160
Penalties and fines	294	-
Payroll taxes and social security costs	195	213
Security expenses	173	72
Advertising and marketing expenses	111	150
Professional services fees	68	37
Cards and bank form production	67	62
Operating leases	64	29
Repair and maintenance	44	47
Office supplies	43	14
Taxes other than income tax	33	43
Utilities	33	39
Entertainment	9	10
Transportation and business trips	8	11
Other employees' benefits	58	13
Other expenses	87	76
Total operating expenses	**2,092**	**1,294**

9. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Georgian 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.

(in Georgian Lari and in thousands)

Temporary differences as at 31 December 2005 and 2004 comprise:

	2005	2004
Deferred assets:		
Other liabilities	60	-
Total deferred assets	60	-
Deferred liabilities:		
Loans and advances to customers, net	(320)	50
Tangible and intangible assets, net	(190)	(145)
Total deferred liabilities	(510)	(95)
Net deferred liabilities	(450)	(95)
Net deferred tax liabilities at statutory rate of 20%	**(90)**	**(19)**

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

	2005	2004
Profit before income taxes	2,901	1,140
Statutory tax rate	20%	20%
Theoretical tax at the statutory tax rate	(580)	(228)
Tax effect of permanent differences	90	39
Expenses not offsetable	12	-
Depreciation and amortization	(26)	(7)
Change in valuation allowance	(64)	12
Income tax expense	**(568)**	**(184)**
Deferred income tax expense	(71)	(4)
Current income tax expense	(497)	(180)
Income tax expense	**(568)**	**(184)**

(in Georgian Lari and in thousands)

	2005	2004
Deferred income tax liabilities		
1 January	(19)	(15)
Deferred tax liabilities	(71)	(4)
31 December	**(90)**	**(19)**

Income tax assets and liabilities consist of the following:

	2005	2004
Current income tax liability	(314)	(8)
Deferred income tax liability	(90)	(19)
Total income tax liabilities	**(404)**	**(27)**

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	5,723	3,851
Balances with the National Bank of Georgia	5,105	3,258
Total cash and balances with the National Bank of Georgia	**10,828**	**7,109**

The balances with the NBG as at 31 December 2005 and 2004 include GEL 3,363 thousand and GEL 2,102 thousand minimum reserve deposits required by the NBG. The Group is required to maintain the reserve balances at the NBG at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2005	2004
Cash and balances with the National Bank of Georgia	10,828	7,109
Loans and advances to banks in OECD countries	5,919	4,890
	16,747	11,999
Less minimum reserve deposits with the National Bank of Georgia	(3,363)	(2,102)
Total cash and cash equivalents	**13,384**	**9,897**

(in Georgian Lari and in thousands)

11. LOANS AND ADVANCES TO BANKS, NET

Loans and advances to banks comprise:

	2005	2004
Correspondent accounts with other banks	6,289	5,665
Restricted deposits	34	-
Accrued interest income on loans and advances to banks	12	2
	6,335	5,667
Less allowance for impairment losses	-	(16)
Total loans and advances to banks, net	**6,335**	**5,651**

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

As at 31 December 2005 the Bank had restricted deposits totaling GEL 34 thousand under letters of credit (31 December 2004 – nil).

12. LOANS TO CUSTOMERS, NET

Loans to customers comprise:

	2005	2004
Originated loans	29,991	15,083
Accrued interest income on loans and advances to customers	103	53
	30,094	15,136
Less allowance for impairment losses	(1,012)	(393)
Total loans to customers, net	**29,082**	**14,743**

	2005	2004
Loans collateralized by real estate	18,234	8,452
Loans collateralized by equipment	4,459	1,320
Loans collateralized by guarantees	2,728	950
Loans collateralized by shares of other entities	1,368	1,512
Loans collateralized by cash	684	755
Loans collateralized by inventories	489	1,059
Unsecured loans	1,939	1,035
Accrued interest income on loans and advances to customers	103	53
	30,094	15,136
Less allowance for impairment losses	(1,012)	(393)
Total loans to customers, net	**29,082**	**14,743**

(in Georgian Lari and in thousands)

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

	2005	2004
Analysis by industry		
Trading	8,211	5,729
Construction	2,873	1,405
Individuals	7,649	2,622
Mining and metallurgy	6,343	3,646
Transport and communication	954	1,104
other	3,961	577
Accrued interest income on loans and advances to customers	103	53
	30,094	15,136
Less allowance for impairment losses	(1,012)	(393)
Total loans to customers, net	**29,082**	**14,743**

13. FIXED ASSETS, NET

	Buildings	Furniture and equipment	Computers	Vehicles	Other	Total
At cost						
31 December 2004	1,062	158	619	79	25	1,943
Additions	1,792	54	566	-	13	2,425
Disposals	-	(10)	(9)	-	-	(19)
31 December 2005	2,854	202	1,176	79	38	4,349
Accumulated depreciation						
31 December 2004	47	80	135	41	5	308
Charge for the year	27	37	169	16	5	254
Disposals	-	(10)	(9)	-	-	(19)
31 December 2005	74	107	295	57	10	543
Net book value						
31 December 2005	**2,780**	**95**	**881**	**22**	**28**	**3,806**
Net book value						
31 December 2004	**1,015**	**78**	**484**	**38**	**20**	**1,635**

(in Georgian Lari and in thousands)

14. INTANGIBLE ASSETS

	Software and licenses
At cost	
31 December 2004	148
Disposals	(4)
31 December 2005	144
Accumulated amortization	
31 December 2004	13
Charge for the year	15
Disposals	(4)
31 December 2005	24
Net book value	
31 December 2005	**120**
Net book value	
31 December 2004	**135**

15. OTHER ASSETS, NET

Other assets comprise:

	2005	2004
Repossessed assets	334	98
Prepayments and other debtors	181	162
Other	66	27
	581	287
Less allowance for impairment losses	(67)	(31)
Total other assets, net	**514**	**256**

(in Georgian Lari and in thousands)

16. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	2005	2004
Demand deposits	473	7
Loan from National Bank of Georgia	1,000	-
Accrued interest expenses	12	-
Total loans and advances from banks	**1,485**	**7**

17. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2005	2004
Repayable on demand	26,653	12,065
Time deposits	10,321	7,919
Accrued interest expense on customer accounts	226	158
Total customer accounts	**37,200**	**20,142**

Analysis of customer accounts by sector:

	2005	2004
Individuals	8,571	10,048
Transport and communication	4,748	901
Trading	4,448	3,378
Manufacturing	2,090	856
State institutions	2,078	1,462
Agriculture	581	397
Other	14,458	2,942
Accrued interest expense on customer accounts	226	158
Total customer accounts	**37,200**	**20,142**

18. OTHER LIABILITIES

Other liabilities comprise:

	2005	2004
Other creditors	101	82
Impairment reserve on guarantees	60	84
Taxes, other than income tax	18	-
Total other liabilities	**179**	**166**

(in Georgian Lari and in thousands)

19. SHARE CAPITAL

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

	Authorized share capital	Unpaid share capital	Total share capital
Ordinary shares	5,200	(175)	5,025

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

	Authorized share capital	Unpaid share capital	Total share capital
Ordinary shares	5,200	(175)	5,025

Based on the Court Resolution dated 10 January 2000, the Group's Charter's Capital of 5,200,000 shares was authorized, with the nominal par value of GEL 1 per share, from which 5,025,000 were paid and 175,000 remained as unpaid as at 31 December 2005 and 2004.

20. 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 2005 and 2004, the nominal or contract amounts and the risk amounts were:

	2005		2004	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Guarantees issued	2,637	2,637	2,639	2,639
Commitments on credits and unused credit lines	3,069	1,535	2,782	1,391
Total contingent liabilities and credit commitments	**5,706**	**4,172**	**5,421**	**4,030**

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

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 legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans - Employees receive pension benefits from Georgian government 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 Georgian 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.

21. 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, gross	1,806	29,991	2,146	15,083
Accrued interest on loans to customers	15	103	5	53
Allowance for impairment losses and advances	-	(1,012)	(43)	(393)
Loans to customers, net	**4,514**	**29,082**	**2,108**	**14,743**
Customer accounts	391	36,974	1,140	19,984
Accrued interest on customer accounts	11	226	21	158
Total customer accounts	**750**	**37,200**	**1,161**	**20,142**

During the year ended 31 December 2005 the Group originated loans to related party customers amounting to GEL 4,987 thousand, and repaid of GEL 5,327 thousand. 2004: GEL 6,051 thousand and GEL 4,212 thousand, respectively.

During the year ended 31 December 2005 the Group received deposits and current accounts from related party customers of GEL 24,366 thousand and repaid total of GEL 25,115 thousand. 2004: GEL 55,900 thousand and GEL 55,666 thousand, respectively.

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.

	2005		2004	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Guarantees issued	411	2,637	221	2,639
Unused credit lines	231	3,069	170	2,782

(in Georgian Lari and in thousands)

Included in the income statement for the year 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				
- related companies	204	4,313	180	2,291
- key management personnel	6		7	
Allowance for impairment losses	43	(271)	(21)	(402)
Interest expense				
- related companies	(83)	(953)	(6)	(668)
- key management personnel	(7)		(17)	
Fees and commission income				
- related companies	31	1,533	52	729
- key management personnel	5		3	
Operating expenses				
- related companies	-	(2,092)	(16)	(1,294)
- key management personnel	-		(3)	

	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	139	731	134	531
Total key management personnel compensation	**139**	**731**	**134**	**531**

(in Georgian Lari and in thousands)

22. 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 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 National Bank of Georgia	10,828	10,828	7,109	7,109
Loans and advances to banks, net	6,335	6,335	5,651	5,651
Loans to customers, net	29,082	29,082	14,743	14,743
Investment available for sale	3	3	60	60
Investment held to maturity	-	-	240	240
Other assets, net	514	514	256	256
Loans and advances from banks	1,485	1,485	7	7
Customer accounts	37,200	37,200	20,142	20,142
Other liabilities	179	179	166	166

23. 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 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

(in Georgian Lari and in thousands)

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	11,420	11,898	31%	8%
Tier 1 capital	11,420	11,420	30%	4%
As at 31 December 2004				
Total capital	9,487	9,752	46%	8%
Tier 1 capital	9,487	9,487	45%	4%

24. 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 Bank 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 board of directors sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank 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 board of directors 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 board of directors conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

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	2%	4%	4%	2%	-	-
Loans and advances to customers, net	16%	16%	16%	20%	21%	18%
LIABILITIES						
Customer accounts	7%	7%	7%	5%	7%	7%

(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	2005 GEL thousand Total
ASSETS								
Loans and advances to banks, net	5,581	-	-	-	-	-	-	5,581
Loans to customers, net	10,848	689	5,465	10,264	249	1,567	-	29,082
Total interest earning assets	16,429	689	5,465	10,264	249	1,567	-	34,663
Cash and balances with National Bank of Georgia	7,465	-	-	-	-	-	3,363	10,828
Loans and advances to banks, net	754	-	-	-	-	-	-	754
Investments available for sale	-	-	-	-	3	-	-	3
Fixed assets, net	-	-	-	1,495	2,854	-	(543)	3,806
Intangible assets, net	-	-	-	144	-	-	(24)	120
Other assets, net	247	-	-	267	-	-	-	514
TOTAL ASSETS	**24,895**	**689**	**5,465**	**12,170**	**3,106**	**1,567**	**2,796**	**50,688**
LIABILITIES								
Loans and advances from banks	1,012	-	-	-	-	-	-	1,012
Customer accounts	3,868	2,840	5,978	558	94	-	-	13,338
Total interest bearing liabilities	4,880	2,840	5,978	558	94	-	-	14,350
Loans and advances from banks	473	-	-	-	-	-	-	473
Customer accounts	23,862	-	-	-	-	-	-	23,862
Income tax liabilities	404	-	314	90	-	-	-	404
Other liabilities	119	-	-	-	-	-	60	179
TOTAL LIABILITIES	**29,334**	**2,840**	**6,292**	**648**	**94**	**-**	**60**	**39,268**
Liquidity gap	(4,439)	(2,151)	(827)	11,522	3,012			
Interest sensitivity gap	11,549	(2,151)	(513)	9,706	155			
Cumulative interest sensitivity gap	11,549	9,398	8,885	18,591	18,746			
Cumulative interest sensitivity gap as a percentage of total assets	23%	19%	18%	37%	37%			

(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	2004 GEL thousand Total
ASSETS								
Loans and advances to banks, net	5,651	-	-	-	-	-	-	5,651
Loans to customers, net	1,168	1,547	4,244	7,489	-	295	-	14,743
Investments held to maturity	-	-	240	-	-	-	-	240
Investments available for sale	-	-	-	-	-	-	60	60
Total interest earning assets	6,819	1,547	4,484	7,489	-	295	60	20,694
Cash and balances with National Bank of Georgia	7,109	-	-	-	-	-	-	7,109
Fixed assets, net	-	-	-	928	1,016	-	(309)	1,635
Intangible assets, net	-	-	-	148	-	-	(13)	135
Other assets, net	122	4	16	114	-	-	-	256
TOTAL ASSETS	**14,050**	**1,551**	**4,500**	**8,679**	**1,016**	**295**	**(262)**	**29,829**
LIABILITIES								
Customer accounts	2,517	1,355	4,059	685	45	-	-	8,661
Total interest bearing liabilities	2,517	1,355	4,059	685	45	-	-	8,661
Loans and advances from banks	7	-	-	-	-	-	-	7
Customer accounts	11,481	-	-	-	-	-	-	11,481
Income tax liabilities	27	-	-	-	-	-	-	27
Other liabilities	82	-	-	-	-	-	84	166
TOTAL LIABILITIES	**14,114**	**1,335**	**4,059**	**685**	**45**	**-**	**84**	**20,342**
Liquidity gap	(64)	196	441	7,994	971			
Interest sensitivity gap	4,302	192	425	6,804	(45)			
Cumulative interest sensitivity gap	4,302	4,494	4,919	11,723	11,678			
Cumulative interest sensitivity gap as a percentage of total assets	14%	15%	16%	39%	39%			

(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 1 USD= GEL 1,7925	EUR 1 EUR= GEL 2,1245	Other currencies	2005 GEL thousand Total
ASSETS					
Cash and balances with National Bank of Georgia	7,289	1,784	1,741	14	10,828
Loans and advances to banks, net	127	5,881	263	64	6,335
Loans to customers, net	6,284	22,381	417	-	29,082
Investments available for sale	3	-	-	-	3
Fixed assets, net	3,806	-	-	-	3,806
Intangible assets, net	120	-	-	-	120
Other assets, net	449	-	65	-	514
TOTAL ASSETS	**18,102**	**30,046**	**2,486**	**78**	**50,688**
LIABILITIES					
Loans and advances from banks	1,012	261	212	-	1,485
Customer accounts	10,937	23,526	2,248	489	37,200
Income tax liabilities	404	-	-	-	404
Other liabilities	104	75	-	-	179
TOTAL LIABILITIES	**12,457**	**23,862**	**2,460**	**489**	**39,268**
OPEN POSITION	**5,645**	**6,184**	**26**	**(411)**	

(in Georgian Lari and in thousands)

	GEL	USD 1 USD= GEL 1,825	EUR 1 EUR= GEL 2,485	Other currencies	Currency undefined	2004 GEL thousand Total
ASSETS						
Cash and balances with National Bank of Georgia	4,295	2,019	783	12	-	7,109
Loans and advances to banks, net	220	4,540	805	86	-	5,651
Loans to customers, net	124	14,360	259	-	-	14,743
Investments held to maturity	240	-	-	-	-	240
Investments available for sale	60	-	-	-	-	60
Fixed assets, net	1,944	-	-	-	(309)	1,635
Intangible assets, net	148	-	-	-	(13)	135
Other assets, net	187	69	-	-	-	256
TOTAL ASSETS	**7,218**	**20,988**	**1,847**	**98**	**(322)**	**29,829**
LIABILITIES						
Loans and advances from banks	7	-	-	-	-	7
Customer accounts	5,024	12,761	1,749	608	-	20,142
Income tax liabilities	27	-	-	-	-	27
Other liabilities	35	47	-	-	84	166
TOTAL LIABILITIES	**5,093**	**12,808**	**1,749**	**608**	**84**	**20,342**
OPEN POSITION	**2,125**	**8,180**	**98**	**(510)**		

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 board of directors 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	Non OECD countries	2005 GEL thousand Total
ASSETS				
Cash and balances with National Bank of Georgia	10,828	-	-	10,828
Loans and advances to banks, net	229	5,919	187	6,335
Loans to customers, net	29,063	-	19	29,082
Investments available for sale	3	-	-	3
Fixed assets, net	3,806	-	-	3,806
Intangible assets, net	120	-	-	120
Other assets, net	514	-	-	514
TOTAL ASSETS	**44,563**	**5,919**	**206**	**50,688**
LIABILITIES				
Loans and advances from banks	1,012	416	57	1,485
Customer accounts	36,303	501	396	37,200
Income tax liabilities	404	-	-	404
Other liabilities	179	-	-	179
TOTAL LIABILITIES	**37,898**	**917**	**453**	**39,268**
NET POSITION	**6,665**	**5,002**	**(247)**	

(in Georgian Lari and in thousands)

	Georgia	OECD countries	Non OECD countries	2004 GEL thousand Total
ASSETS				
Cash and balances with National Bank of Georgia	7,109	-	-	7,109
Loans and advances to banks, net	288	4,890	473	5,651
Loans to customers, net	14,740	3	-	14,743
Investments held to maturity	240	-	-	240
Investments available-for-sale	60	-	-	60
Fixed assets, net	1,635	-	-	1,635
Intangible assets, net	135	-	-	135
Other assets, net	139	93	24	256
TOTAL ASSETS	**24,346**	**4,986**	**497**	**29,829**
LIABILITIES				
Loans and advances from banks	7	-	-	7
Customer accounts	19,712	430	-	20,142
Income tax liabilities	27	-	-	27
Other liabilities	55	84	27	166
TOTAL LIABILITIES	**19,801**	**514**	**27**	**20,342**
NET POSITION	**4,545**	**4,472**	**470**	