TBC BANK GROUP

Consolidated Financial Statements
For the Years Ended 31 December
2006 and 2005

and Independent Auditors' Report

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 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on pages 2 and 3, 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 TBC Bank and its subsidiary (the "Group").

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;
- Maintaining accounting records in compliance with legislation;
- 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 2006 were authorised for issue on 4 April 2007 by the Management Board.

On behalf of the Management Board:

General Director
Vakhtang Butskhrikidze

4 April 2007

Deputy General Director
Paata Gadzadze

4 April 2007

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of TBC Bank Group:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Company TBC Bank (the "Bank") and its subsidiary (the "Group"), which comprise the balance sheet as at 31 December 2006, and the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

4 April 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
Interest income	5, 27	92,607	54,389
Interest expense	5, 27	(39,346)	(17,627)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	5	53,261	36,762
Provision/(recovery of provision) for impairment losses on interest bearing assets	6	(9,942)	7,047
NET INTEREST INCOME		43,319	43,809
Net gain on foreign exchange operations	7	9,735	5,740
Fee and commission income	8	17,891	14,211
Fee and commission expense	8	(4,484)	(2,224)
Net loss on subsidiaries		(23)	-
Net realized gain on investments available-for-sale		-	4,659
Net gain on investments held-to-maturity		117	-
Share in losses of associates		(932)	(14)
Dividends received		-	14
Other income		2,627	1,296
NET NON-INTEREST INCOME		24,931	23,682
OPERATING INCOME		68,250	67,491
OPERATING EXPENSES	9	(32,750)	(24,520)
OPERATING PROFIT		35,500	42,971
Provision for guarantees	6	(970)	(216)
Provision for impairment losses on other transactions	6	(4,630)	(744)
PROFIT BEFORE INCOME TAX	10	29,900	42,011
Income tax expense		(7,319)	(7,314)
NET PROFIT		22,581	34,697
Attributable to:			
Equity holders of the parent		22,471	34,697
Minority interest		110	-
		22,581	34,697

On behalf of the Management Board:

General Director
Vakhtang Butskhrikidze

4 April 2007

Deputy General Director
Paata Gadzadze

4 April 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

TBC BANK GROUP

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	31 December 2006	31 December 2005 (restated)
ASSETS:			
Cash and balances with the National Bank of Georgia	11	197,425	94,373
Loans and advances to banks	12	49,630	70,466
Derivative financial instruments	13	4,561	2,985
Loans to customers	14, 27	574,193	369,404
Net investments in finance leases	15	15,079	8,367
Investments available-for-sale	16	4,602	203
Investments held-to-maturity	17	50,253	7,088
Investments in associates	18	462	843
Property and equipment	19	51,254	36,671
Intangible assets	20	543	346
Other assets	21	11,733	5,765
TOTAL ASSETS		959,735	596,511
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks and credit institutions	22, 27	264,266	98,528
Derivative financial instruments	13	3,383	1,592
Customer accounts	23, 27	552,168	380,270
Provisions	6	2,061	1,091
Current income tax liabilities		1,800	4,831
Deferred income tax liabilities	10	2,289	2,872
Other liabilities	24	13,154	7,539
Total liabilities		839,121	496,723
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	25	5,385	5,385
Share premium		4,715	4,715
Other reserves		10,003	10,003
Retained earnings		100,156	79,685
		120,259	99,788
Minority interest		355	-
Total equity		120,614	99,788
TOTAL LIABILITIES AND EQUITY		959,735	596,511

On behalf of the Management Board:

General Director
Vakhtang Butskhrikidze

4 April 2007

Deputy General Director
Paata Gadzadze

4 April 2007

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(in Georgian Lari and in thousands)

	Attributable to the equity holders of the parent							
	Share capital	Share premium	Investments available for sale fair value reserve	Property and equipment revaluation reserve	Retained earnings	Total	Minority interest	Total equity
31 December 2004	5,385	4,715	3,498	1,277	46,488	61,363	-	61,363
Share capital increase of:								
-ordinary shares	641	-	-	-	-	641	-	641
-preference shares	(641)	-	-	-	-	(641)	-	(641)
Gains on revaluation of property and equipment	-	-	-	8,726	-	8,726	-	8,726
Gains transferred to income statement on sale of available-for-sale investments	-	-	(3,498)	-	-	(3,498)	-	(3,498)
Dividends declared on								
-ordinary shares	-	-	-	-	(1,500)	(1,500)	-	(1,500)
Net profit	-	-	-	-	34,697	34,697	-	34,697
31 December 2005 (restated)	5,385	4,715	-	10,003	79,685	99,788	-	99,788
Dividends declared on								
-ordinary shares	-	-	-	-	(2,000)	(2,000)	-	(2,000)
Net income attributable to the Minority	-	-	-	-	-	-	110	110
Loss on sale of shares	-	-	-	-	-	-	23	23
Sale of shares	-	-	-	-	-	-	222	222
Net profit	-	-	-	-	22,471	22,471	-	22,471
31 December 2006	5,385	4,715	-	10,003	100,156	120,259	355	120,614

On behalf of the Management Board:

General Director
Vakhtang Butskhrikidze

4 April 2007

Deputy General Director
Paata Gadzadze

4 April 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		89,501	53,038
Interest paid		(33,194)	(15,129)
Fees and commissions received		18,981	14,211
Fees and commissions paid		(5,686)	(2,224)
Realized gains less losses in foreign currencies		9,694	6,210
Other operating income		2,631	1,054
Salaries and benefits		(16,794)	(14,200)
Administrative and operating expenses		(8,364)	(10,144)
Cash flows from operating activities before changes in operating assets and liabilities		56,769	32,816
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Obligatory reserve with the NBG		(22,477)	(11,056)
Loans and advances to banks		18,759	83
Loans to clients		(212,355)	(149,214)
Other assets		(7,355)	(384)
Increase/(decrease) in operating liabilities			
Loans and advances from banks and credit institutions		161,451	57,813
Customer accounts		170,033	94,196
Other liabilities		295	(727)
Cash inflow from operating activities before taxation		165,120	23,527
Corporate income tax paid		(10,933)	(2,290)
Net cash inflow from operating activities		154,187	21,237
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of derivative financial asset		-	(1,147)
Purchases of investment held-to-maturity		(42,791)	(3,978)
Proceeds from sale of investment available-for-sale		-	9,344
Purchases of investment available-for-sale		(5,331)	-
Net investment in finance lease		(6,582)	(5,076)
Proceeds from investments in associates and subsidiaries		603	-
Purchases of property and equipment		(19,956)	(7,636)
Proceeds on sale of property and equipment		310	-
Purchases of intangible assets		(326)	(85)
Net cash outflow from investing activities		(74,073)	(8,578)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

(in Georgian Lari and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(2,000)	(1,500)
Net cash outflow from financing activities		(2,000)	(1,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS		78,114	11,159
Effect of changes in foreign exchange rate on cash and cash equivalents		41	(597)
CASH AND CASH EQUIVALENTS, beginning of year	11	89,030	78,468
CASH AND CASH EQUIVALENTS, end of year	11	167,185	89,030

On behalf of the Management Board:

General Director
Vakhtang Butskhrikidze

4 April 2007

Deputy General Director
Paata Gadzadze

4 April 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2-3.

(in Georgian Lari and in thousands, unless otherwise stated)

1. ORGANISATION

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 794 employees at the end of 2006 (2005 - 667).

As at 31 December 2006, the Bank had the following shareholders:

Shareholders	2006 Ownership interest, %	2005 Ownership interest, %
International Finance Corporation	30.95	30.95
TBC Holdings LTD	21.67	25.00
Liquid Crystal International	20.10	20.10
Deutshe Investitions and Entwicklungesellschaft mbH.	13.33	10.00
David Khazaradze	6.58	6.58
Badri Japaridze	5.51	5.51
George Kekelidze	1.84	1.84
Mamuka Khazaradze	0.02	0.02
Total	100.00	100.00

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

Name	Country of incorporation	The Bank ownership interest 2006	The Bank ownership interest 2005	Type of operation
JSC TBC Leasing	Georgia	90%	100%	Finance leasing
TBC Broker LLC	Georgia	100%	100%	Securities market transactions
UFC International Limited	Georgia	80%	40%	Plastic card transactions' processing

TBC Broker LLC (100%) and UFC International Limited (80%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

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.

These consolidated financial statements were authorized for issue by the Management Board on 4 April 2007.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

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 the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard ("IAS") No. 16 "Property, Plant and Equipment".

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 provisions for impairment losses and the fair value of financial instruments.

Key assumptions

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2006	**31 December 2005**
Loans and advances to banks	49,630	70,466
Loans to customers	574,193	369,404
Net investments in finance leases	15,079	8,367

Functional currency

The functional currency of these financial statements is the Georgian Lari.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary) 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.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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 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 recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

(in Georgian Lari and in thousands, unless otherwise stated)

As at 31 December 2006 and 2005 assets, liabilities and profit/(loss) for the years then ended of associated companies are presented as follows:

Name of associated company	Fair value of investments in associated company	Total assets of associated company	Total liabilities of associated company	Revenue of associated company	Profit or loss
JSC Union Financial Corporation	-	1,240	1,322	1,222	(1,184)
JSC TBC Broker	20	76	32	57	(7)
JSC GPIH	442	13,360	11,179	8,705	109
UFC International Limited	-	-	-	-	-
Total Investments in associates	**462**	**14,676**	**12,533**	**9,984**	**(1,082)**

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 purchase and sale 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 trade date and 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 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 and government securities denominated in Georgian Lari, carried at fair value through profit or loss, which may be converted to cash within a short period of time. For 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.

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 amortized cost based on expected maturities. 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 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 according to nature of these losses. 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 to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

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

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 carrying amounts 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 amortised 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 recognised, the previously recognised 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. Provisions are made as a result of an individual appraisal of risk 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 profit and loss and the total of the allowance for impairment losses is deducted in arriving at assets as shown in 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.

Finance leases

Financial lease are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group presents assets leased in as loans in the amounts equal to the net investment in lease value. Finance income is recognized so as to produce a constant periodic rate of return on the net investment outstanding.

Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

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 and 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 until sold when gain/loss previously recorded in equity recycles through the income statement, except for foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated and income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

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 year. 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 year. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary.

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 and intangible assets is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%-3%
Fixture and equipment	12%-50%
Intangible assets	20%-50%

The carrying amounts of property and equipment 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 property and equipment 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 property and equipment is credited to the Property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized 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.

Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 28.

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 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 consolidated 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 consolidated income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated 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.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital and share premium

Contributions to share capital are recognized at their cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

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 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 state pension fund. The Group does not have any pension arrangements separate from the State pension system of Georgia. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interest income also includes income earned on investments in securities. Other income is credited to 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. Commission incomes/expenses are recognized on an accrual basis.

Fee and commission income

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication 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 profit and loss 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 profit and loss 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 GEL 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 on foreign exchange operations.

Rates of exchange

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

	31 December 2006	**31 December 2005**
GEL/1 US Dollar	1.714	1.793
GEL/1 Euro	2.256	2.125

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.

Adoption of new and revised International Financial Reporting Standards

In 2006 the following interpretations and amendments applicable to the Bank became effective:

- IFRIC 4 “Determining Whether an Arrangement Contains a Lease” (effective 1 January 2006);
- IFRIC 8 “Scope of IFRS 2” (effective 1 May 2006);
- IFRIC 9 “Reassessment of Embedded Derivatives” (effective 1 June 2006);
- Amendment to IAS 39 regarding the financial guarantee contracts (effective 1 January 2006);
- Amendment to IAS 39 regarding the fair value option (effective 1 January 2006).

The effect of these changes on the financial statements of the Group is not significant.

At the date of authorisation of these financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures” (effective 1 January 2007);
- IFRIC 10 “Interim Financial Reporting and Impairment” (effective 1 November 2006);
- Amendments to IAS 1 regarding disclosure on the Bank’s objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

4. PRIOR PERIOD ADJUSTMENTS

In 2006 the Group’s management discovered errors in the consolidated statement of changes in equity and consolidated income statement for the year ended 31 December 2005. Investments available-for-sale fair value reserve was not properly recorded. In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” the correction of the error was done retrospectively. Comparative amounts were restated and the corrections were made to the earliest prior period presented. The prior period adjustments have not affected previously reported consolidated balance sheet as at 31 December 2005.

(in Georgian Lari and in thousands, unless otherwise stated)

The effect of the adjustments made to the consolidated statement of changes in equity and consolidated income statement for the year ended 31 December 2005 is as follows:

Type of correction	Amount of correction	Financial statements item	As previously reported 31 December 2005	As restated 31 December 2005
Gains on sale of available-for-sale investments transferred from statement of changes in equity to income statement	3,498	Gains on sale of available-for-sale investments	1,161	4,569

5. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	83,671	47,258
Interest on loans and advances to banks	5,360	3,382
Interest on finance lease	3,063	1,403
Interest on debt securities	374	938
Other	139	1,408
Total interest income	92,607	54,389
Interest expense		
Interest on customer accounts	(20,397)	(12,344)
Interest on loans and advances from banks and credit institutions	(18,949)	(5,283)
Total interest expense	(39,346)	(17,627)
Net interest income before provision for impairment losses on Interest bearing assets	53,261	36,762

(in Georgian Lari and in thousands, unless otherwise stated)

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans and advances to banks	Loans to customers	Net investments in finance leases	Total
31 December 2004	317	15,102	95	15,514
Recovery	(317)	(6,635)	(95)	(7,047)
Write-off of assets	-	(280)	-	(280)
Recoveries of assets previously written off	-	553	-	553
31 December 2005	-	8,740	-	8,740
Provision	-	9,760	182	9,942
Write-off of assets	-	(745)	-	(745)
Recoveries of assets previously written off	-	398	-	398
31 December 2006	-	18,153	182	18,473

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

	Year ended 31 December 2006	Year ended 31 December 2005
At the beginning of year	45	249
Provision/(recovery)	126	(158)
Write-off of assets	(34)	(264)
Recoveries of assets previously written off	-	218
At the end of year	137	45

(in Georgian Lari and in thousands, unless otherwise stated)

The movements in provisions on guarantees and other commitments were as follows

	Provision on guarantees	**Provision for losses on safe deposit boxes**	**Provision for penalties for the incompliance with Anti Money Laundering Law reporting requirements**	**Total**
31 December 2004	875	-	-	875
Provision	216	-	902	1,118
31 December 2005	1,091	-	902	1,993
Provision	970	4,504	-	5,474
Write off of assets	-	-	(457)	(457)
31 December 2006	2,061	4,504	445	7,010

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Dealing, net	9,694	6,210
Translation differences, net	41	(470)
Total net gain on foreign exchange operations	**9,735**	**5,740**

(in Georgian Lari and in thousands, unless otherwise stated)

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income:		
Settlements	7,678	5,102
Documentary operations	3,549	1,485
Cash operations	3,175	3,357
Loan servicing	1,619	1,663
Foreign exchange operations	201	1,365
Other	1,669	1,239
Total fee and commission income	17,891	14,211
Fee and commission expense:		
Documentary operations	(901)	(278)
Correspondent bank services	(822)	(464)
Settlements	(549)	(238)
Cash operations	(259)	(155)
Communication services	(176)	-
Foreign currency operations	(33)	(60)
Other	(1,744)	(1,029)
Total fee and commission expense	**(4,484)**	**(2,224)**

9. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Salaries and bonuses	17,534	15,201
Business development	3,343	995
Depreciation and amortization	3,205	2,173
Communications and supplies	1,148	603
Professional services	1,321	615
Transportation and vehicle maintenance	741	342
Occupancy and rent	710	458
Stationery and other office expenses	544	985
Security	461	455
Operating taxes	442	296
Real estate insurance	410	328
Other	2,891	2,069
Total operating expenses	**32,750**	**24,520**

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, unless otherwise stated)

10. INCOME TAXES

The Group provides for taxes based on the 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 and a tax free regime for certain income.

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 2006 and 2005 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 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deferred assets:		
Contractual interest not accrued	5,397	2,775
Allowance for loan impairment	-	460
Provisions	4,868	-
Other liabilities	1,110	1,185
Intangible assets	471	285
Total deferred assets	11,846	4,705
Deferred liabilities:		
Revaluation of property and equipment	12,165	12,505
Property and equipment	9,910	6,465
Other liabilities	1,140	-
Net investment in finance leases	78	95
Total deferred liabilities	23,293	19,065
Net deferred liabilities	(11,447)	(14,360)
Net deferred tax liability	**(2,289)**	**(2,872)**

(in Georgian Lari and in thousands, unless otherwise stated)

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	29,900	42,011
Tax at the statutory tax rate (20%)	5,980	8,402
Tax effect of permanent differences	1,339	(1,088)
Income tax expense	**7,319**	**7,314**
Current income tax expense	7,902	6,633
Deferred income tax expense	(583)	2,862
Effect of property and equipment revaluation recorded in equity	-	(2,181)
Income tax expense	**7,319**	**7,314**

Deferred income tax liabilities	**2006**	**2005**
At the beginning of year	2,872	10
Increase/(decrease) in income tax liability for the year	(583)	2,862
At the end of year	**2,289**	**2,872**

11. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

	31 December 2006	31 December 2005
Cash	47,939	31,221
Balances with the National Bank of Georgia	149,486	63,152
Total cash and balances with the National Bank of Georgia	**197,425**	**94,373**

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

	31 December 2006	31 December 2005
Cash and balances with the National Bank of Georgia	197,425	94,373
Loans and advances to banks in OECD countries (Note 12)	33,065	35,485
	230,490	129,858
Less minimum reserve deposits and foreign currency deposits with the NBG	(63,305)	(40,828)
Total cash and cash equivalents	**167,185**	**89,030**

(in Georgian Lari and in thousands, unless otherwise stated)

12. LOANS AND ADVANCES TO BANKS

	31 December 2006	31 December 2005
Loans and advances to banks	14,052	30,899
Correspondent accounts with banks	33,818	36,938
Other amounts	1,760	2,629
Total loans and advances to banks	**49,630**	**70,466**

Movements in allowances for impairment losses and advances to banks for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

As at 31 December 2006 and 2005 included in loans and advances to banks are guarantee deposits placed by the bank for its operations in the amount of GEL 1,760 thousand and GEL 1,885 thousand, respectively.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments comprise:

	31 December 2006 Net fair value		31 December 2005 Net fair value	
	Asset	Liability	Asset	Liability
Foreign currency contracts				
Forwards	3,384	3,383	1,593	1,592
Hedge Instruments				
Interest rate cap	1,177	-	1,392	-
	4,561	**3,383**	**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 three Interest Rate Cap agreements with AG Commerzbank for a notional amount of US $ 4,000 thousand, US $ 19,000 thousand and with DresdnerBank for a notional amount of US $ 35,000 thousand. The upper interest rates on floating USD-LIBOR-BBA concluded by both parties were 3.5%, 4.25% and 5.5%, respectively. The fixed amount of premium was US $ 254 thousand, US $ 425 thousand and US $ 8 thousand, respectively. The hedge instrument has been revalued in accordance with the quoted market prices of similar hedge instruments as at the year end.

(in Georgian Lari and in thousands, unless otherwise stated)

14. LOANS TO CUSTOMERS

	31 December 2006	31 December 2005
Originated loans	592,346	378,144
Less allowance for impairment losses	(18,153)	(8,740)
Total loans to customers	**574,193**	**369,404**

As at 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to GEL 5,986 thousand and GEL 3,108 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

	31 December 2006	31 December 2005
Loans collateralized by real estate	323,579	187,682
Loans collateralized by inventories and equipment	126,766	63,222
Unsecured loans	72,169	29,157
Loans collateralized by guarantees	39,655	71,356
Loans collateralized by cash	18,508	8,705
Loans secured by gold	11,669	18,022
Less allowance for impairment losses	(18,153)	(8,740)
Total loans to customers	**574,193**	**369,404**

	31 December 2006	31 December 2005
Analysis by sector:		
Trade and service	280,491	171,032
Individuals	147,572	85,551
Manufacturing	66,880	53,417
Real estate and construction	46,746	17,111
Communication	30,488	17,705
Pawn loans	11,883	18,103
Energy	4,532	12,428
Other	3,754	2,797
Less allowance for impairment losses	(18,153)	(8,740)
Total loans to customers	**574,193**	**369,404**

(in Georgian Lari and in thousands, unless otherwise stated)

As at 31 December 2006 the Group provided loans to 10 customers, totalling GEL 114,638 thousand, which individually exceeded 90% of the Group's equity.

	31 December 2006	31 December 2005
Business loans	432,841	270,271
Mortgage loans	88,547	41,765
Consumer loans (including pawn shop loans to individuals)	51,690	47,991
Other	19,268	18,117
Less allowance for impairment losses	(18,153)	(8,740)
Total loans to customers	**574,193**	**369,404**

100% of total portfolio is granted to companies operating in Georgia, which represents significant geographical concentration in one region.

15. NET INVESTMENT IN FINANCE LEASES

Net investment in lease comprised:

	31 December 2006	31 December 2005
Gross investment in finance leases	20,708	11,543
Less unearned finance lease income	(5,447)	(3,176)
Net investment in finance leases	15,261	8,367
Less allowance for impairment	(182)	-
Net investment in finance leases	**15,079**	**8,367**

The present value of future minimum lease payments due from customer under finance lease as at 31 December 2006 and 2005 are as follows:

	31 December 2006	31 December 2005
Not later than one year	6,651	576
From one year to five years	8,428	7,791
Total present value of future minimum lease payments	**15,079**	**8,367**

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

(in Georgian Lari and in thousands, unless otherwise stated)

16. INVESTMENTS AVAILABLE-FOR-SALE

	Share %	31 December 2006	Share %	31 December 2005
Equity securities				
JSC GRDC	1.63%	1,772	-	-
Mukhranis Valley LLC	17.00%	1,087	-	-
Caucasus Network LLC	4.90%	568	-	-
Nikora LLC	4.00%	960	-	-
JSC Creditinfo Georgia	15.30%	92	15.30%	80
JSC Interbank Exchange Market	8.33%	50	8.30%	50
JSC American Academy in Tbilisi	5.38%	50	5.38%	50
Bank Financing Academy LLC	16.67%	12	16.67%	12
Georgian Card LLC	0.17%	5	0.17%	5
SWIFT	0.00%	3	0.00%	3
JSC Central Depositor of Georgian Securities	0.30%	3	0.30%	3
Total investments available-for-sale		**4,602**		**203**

17. INVESTMENTS HELD-TO-MATURITY

	Interest to nominal %	31 December 2006	Interest to nominal %	31 December 2005
NBG Deposit certificates	11%	50,209	-	-
Ministry of Finance Treasury bills	13%	44	13%	2,038
Tbilaviamsheni Ltd Promissory notes	-	-	20%	5,050
Total investments held-to-maturity		**50,253**		**7,088**

As at 31 December 2006 and 2005 interest income on debt securities amounting to GEL 83 thousand and GEL 433 thousand, respectively, was accrued and included in investments held-to-maturity.

(in Georgian Lari and in thousands, unless otherwise stated)

18. INVESTMENTS IN ASSOCIATES

The following enterprises were recorded in the consolidated financial statements using the equity method:

	31 December 2006		31 December 2005	
	Held %	Amount	Held %	Amount
TBC Broker LLC	100%	20	100%	20
JSC Union Financial Corporation	45%	-	43%	497
JSC GPIH	20%	442	20%	326
UFC International Limited	80%	-	40%	-
		462		**843**

In 2006 the Bank purchased shares of UFC International Limited and as at 31 December 2006 the Group's share in the equity of UFC International Limited increased by 40%.

TBC Broker LLC (100%) and UFC International Limited (80%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

The percentage held of the above associates represents both direct and indirect ownership of the Group, except for the JSC Union Financial corporation in which the indirect ownership of the Company was 53% as at 31 December 2006.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

The table below summarizes the movements in the carrying amount of the Bank's investment in associates:

	31 December 2006	31 December 2005
At the beginning of year	843	735
Purchase cost	551	108
Dividends from associates	-	14
Share of results of associates	(932)	(14)
At the end of year	**462**	**843**

(in Georgian Lari and in thousands, unless otherwise stated)

19. PROPERTY AND EQUIPMENT

	Buildings and other real estate	Furniture and equipment	Construction in progress	Total
At initial/ revalued cost				
31 December 2004	5,581	6,869	12,337	24,787
Additions	12,923	5,242	4,541	22,706
Revaluation increase	10,907	-	-	10,907
Disposals	(309)	(1,266)	(14,891)	(16,466)
31 December 2005	29,102	10,845	1,987	41,934
Additions	2,093	5,324	12,267	19,684
Disposals	(6)	(183)	(1,997)	(2,186)
31 December 2006	31,189	15,986	12,257	59,432
Accumulated depreciation				
31 December 2004	1,159	3,433	-	4,592
Charge for the year	419	1,600	-	2,019
Eliminated on disposals	(196)	(1,152)	-	(1,348)
31 December 2005	1,382	3,881	-	5,263
Charge for the year	748	2,328	-	3,076
Eliminated on disposals	-	(161)	-	(161)
31 December 2006	2,130	6,048	-	8,178
Net book value				
31 December 2006	**29,059**	**9,938**	**12,257**	**51,254**
31 December 2005	**27,720**	**6,964**	**1,987**	**36,671**

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.

Had the buildings been carried under the cost method the book value would be GEL 19,935 thousand. As at 31 December 2006 the total revaluation surplus net of tax recognized in equity amounted to GEL 10,003 thousand (31 December 2005 - GEL 10,003 thousand).

As at 31 December 2006 and 2005 property and equipment included fully depreciated and amortized assets in amount of GEL 3,549 thousands and GEL 2,432 thousands, respectively.

(in Georgian Lari and in thousands, unless otherwise stated)

20. INTANGIBLE ASSETS

Computer software	31 December 2006	31 December 2005
At initial cost		
At the beginning of year	1,209	1,124
Additions	326	85
At the end of year	1,535	1,209
Accumulated amortization		
At the beginning of year	863	757
Charge for the year	129	106
At the end of year	992	863
Net book value		
At the end of year	**543**	**346**

21. OTHER ASSETS

	31 December 2006	31 December 2005
Trade debtors	2,311	60
Prepayments for fixed assets	2,284	301
Inventories	2,270	1,687
Prepayments for purchase of leasing assets	1,816	1,420
Prepayments for other assets	1,268	493
Prepaid commission fee	1,154	-
Repossessed assets	439	45
Prepaid operating taxes	155	700
Assets purchased for leasing purposes	-	405
Other	173	699
Less allowance for impairment losses on other assets	(137)	(45)
Total other assets	**11,733**	**5,765**

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

(in Georgian Lari and in thousands, unless otherwise stated)

22. LOANS AND ADVANCES FROM BANKS AND CREDIT INSTITUTIONS

	31 December 2006	31 December 2005
Correspondent accounts of other banks	20,733	2,874
Loans from banks and financial institutions	233,092	67,052
Deposits of banks	10,441	28,602
Total loans and advances from banks and credit institutions	**264,266**	**98,528**

As at 31 December 2006 and 2005 accrued interest expenses included in loans and advances from banks and credit institutions amounted to GEL 6,367 thousand and GEL 1,569 thousand, respectively.

23. CUSTOMER ACCOUNTS

	31 December 2006	31 December 2005
Time deposits	232,388	240,044
Repayable on demand	319,780	140,226
Total customer accounts	**552,168**	**380,270**

As at 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to GEL 5,684 thousand and GEL 3,828 thousand, respectively.

	31 December 2006	31 December 2005
Individuals	308,196	227,792
Trade and service	122,420	74,982
Transport and communication	22,724	20,032
Construction	5,274	3,123
Energy	4,465	2,762
Mining and natural resource processing	2,740	905
Agriculture	152	738
Government	1,934	264
Other	84,263	49,672
Total customer accounts	**552,168**	**380,270**

(in Georgian Lari and in thousands, unless otherwise stated)

24. OTHER LIABILITIES

	31 December 2006	31 December 2005
Accrued expenses	4,999	4,745
Provision for losses on safe deposit boxes	4,504	-
Prepaid commission expense	1,090	-
Sundry creditors	952	588
Provision for penalties for the incompliance with the Anti Money Laundering Law reporting requirements	445	902
Operating taxes payable	269	684
Suspense amounts	187	293
Other creditors	708	327
Total other liabilities	**13,154**	**7,539**

The provision for losses on safe deposit boxes represents provision provided against possible losses arising for reimbursing customers the damages resulting from disappearance of contents of safe deposit boxes, which have been rented out to the customers of the Bank. The Bank has assessed the provision based on the claims from the customers and Management believes the provision adequately provides for the potential losses.

The provision for penalties for the incompliance with the Anti Money Laundering Law reporting requirements in the amount of GEL 445 thousand and 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. As at 31 December 2005 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. The Management believes the Bank stayed in full compliance with the abovementioned law during 2006.

(in Georgian Lari and in thousands, unless otherwise stated)

25. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2006 the Group's share capital comprised the following:

	Authorized share capital	Unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	5,668	(283)	-	5,385
	5,668	**(283)**	**-**	**5,385**

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

	Authorized share capital	Unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	5,668	(283)	-	5,385
	5,668	**(283)**	**-**	**5,385**

Share premium represents the excess of contributions received over the nominal value of shares issued.

The amount of dividends declared subsequently to 31 December 2006 and 2005 amounted to GEL 2,000 thousand and GEL 1,500 thousand, respectively.

As at 31 December 2006 and 2005 the Group's authorized shareholders' capital comprised 56,681 and 50,272 ordinary shares respectively with a par value of GEL 100 per share and 6,409 preferred shares respectively with a par value of GEL 0,1 as at 31 December 2006. During 2005 the authorized share capital of the Group was increased by GEL 283 thousand, which was not issued as at 31 December 2006.

26. 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 Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

(in Georgian Lari and in thousands, unless otherwise stated)

As at 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal Amount	**Risk weighted amount**	**Nominal amount**	**Risk weighted amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments, secured by cash	4,654	-	1,091	-
Guarantees issued and similar commitments, not secured by cash	124,453	124,453	30,932	30,932
Letters of Credit collateralised by the underlying shipments	22,601	4,520	-	-
Commitments on loans and unused credit lines up to one year	40,666	-	20,797	-
Commitments on loans and unused credit lines over one year	141	70	169	85
Other commitments	847	-	551	-
Total contingent liabilities and credit commitments	**193,362**	**129,043**	**53,540**	**31,017**

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2006 and 2005.

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	31 December 2006	**31 December 2005**
Not later than 1 year	53	7
Later than 1 year and not later than 5 years	928	503
Later than 5 years	636	690
Total operating lease commitments	**1,617**	**1,200**

Legal 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 apart from those reflected in the provision for losses on safe deposit boxes, as mote fully disclosed in Note 24.

Taxes – Due to the presence in Georgian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may by assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements.

(in Georgian Lari and in thousands, unless otherwise stated)

At the end of the year 2006, the Group was not in line with the tier 1 capital 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. Moreover, the Management expects share capital contributions in the amount of USD 82.5 million to be made by the Bank's shareholders by the end of May 2007.

Pensions and retirement plans – Employees receive pension benefits from Government of Georgia in accordance with the laws and regulations of the country. As at 31 December 2006 and 2005, 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.

27. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Bank; and that have joint control over the Group;
(b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Group is a venturer;
(d) Members of key management personnel of the Group or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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:

	31 December 2006		31 December 2005	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers	21,270	574,193	11,405	369,404
Customer accounts	12,336	552,168	8,225	380,270
Loans and advances from banks and credit institutions	33,547	264,266	17,978	98,528
Commitments and guarantees given	15,912	193,362	3,203	53,540

(in Georgian Lari and in thousands, unless otherwise stated)

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	31 December 2006		31 December 2005	
	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	2,644	17,534	2,722	15,201

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	1,955	92,607	101	54,389
Interest expense	(4,405)	(39,346)	(1,244)	(17,627)

28. SHARE BASED PAYMENT

The Group has an ownership-based compensation scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at meeting held on 18 May 2006, General Director and a Deputy General Director are granted options to purchase ordinary shares at a fixed price of GEL 100 per ordinary share.

Each employee share option converts into one ordinary share of JSC TBC Bank on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The options granted expire within 5 years.

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2005 and 2006, vest at the date of their issue.

The weighted average fair value of the share options granted during the financial year is GEL 100 (2005: GEL 100). Options were priced assuming the fair value equals to the nominal value, as the shares are not traded on the open market and it is not practicable to estimate grant date share price.

(in Georgian Lari and in thousands, unless otherwise stated)

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	31 December 2006		31 December 2005	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance at beginning of the financial year	567	100	-	-
Granted during the financial year	567	100	567	100
Balance at end of the financial year	1,134	100	567	100
Exercisable at end of the financial year	1,134	100	567	100

The share options outstanding at the end of the financial year had an exercise price of GEL 0,1 (2005 - GEL 0,1).

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Presentation and Disclosure” 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. 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 2006		31 December 2005	
	Current value	**Fair value**	**Current value**	**Fair value**
Cash and balances with National Bank of Georgia	197,425	197,425	94,373	94,373
Loans and advances to banks, less allowance for impairment losses	49,630	49,630	70,466	70,466
Investments available-for-sale	4,602	4,602	203	203
Investments held–to-maturity, less allowance for impairment losses	50,253	50,253	7,088	7,088
Loans and advances from banks and credit institutions	264,266	264,266	98,528	98,528
Customer accounts	552,168	552,168	380,270	380,270

The fair value of loans to customers and investments available-for-sale can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

(in Georgian Lari and in thousands, unless otherwise stated)

30. REGULATORY MATTERS

Quantitative measures established by Basle Committee 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 Basle 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
0%-100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2006 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 subordinate to the repayments of the Group's liabilities to all other creditors.

Capital amounts and ratios	Actual Amount	For Capital Adequacy purposes	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2006				
Total capital	144,274	143,812	21%	12%
Tier 1 capital	110,611	110,611	16%	8%
As at 31 December 2005				
Total capital	106,958	98,218	21%	12%
Tier 1 capital	99,788	86,287	18%	8%

31. 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.

(in Georgian Lari and in thousands, unless otherwise stated)

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.

	2006			2005		
	GEL	**USD**	**Other currencies**	**GEL**	**USD**	**Other currencies**
ASSETS						
Loans and advances to banks	1,3%	0,9%	2,1%	1,24%	2,5%	2,5%
Loans to customers	16,2%	16,4%	14,4%	16,1%	16,7%	17%
Net investment in finance lease	36,1%	26,5%	24,6%	35.5%	24.5%	24.1%
Investments held-to-maturity	11,2%	-	-	13.2%	-	-
LIABILITIES						
Loans and advances from banks and credit institutions	12,7%	9,5%	8,6%	8%	5,5%	7%
Customer accounts	9,8%	7,2%	6,2%	8,5%	6,4%	7%

(in Georgian Lari and in thousands, unless otherwise stated)

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 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
ASSETS							
Loans and advances to banks	20,008	-	3,602	1,094	-	-	24,704
Loans to customers	68,559	72,369	172,776	230,231	28,598	1,660	574,193
Net investment in finance leases	717	1,332	4,602	8,428	-	-	15,079
Investments held-to-maturity	50,209	-	44	-	-	-	50,253
Total interest bearing assets	139,493	73,701	181,024	239,753	28,598	1,660	664,229
Cash and balances with the NBG	134,120	-	-	-	-	63,305	197,425
Loans and advances to banks	24,926	-	-	-	-	-	24,926
Derivative financial instruments and spot contacts	3,384	-	14	1,163	-	-	4,561
Investments in associates	-	-	-	-	-	462	462
Investments available-for-sale	-	-	-	4,602	-	-	4,602
Property and equipment	-	-	-	-	-	51,254	51,254
Intangible assets	-	-	-	-	-	543	543
Other assets	-	10,579	-	1,154	-	-	11,733
TOTAL ASSETS	301,923	84,280	181,038	246,672	28,598	117,224	959,735
LIABILITIES							
Loans and advances from banks and credit institutions	63,580	674	80,520	104,770	14,722	-	264,266
Customer accounts	150,313	37,355	119,719	39,453	1,296	-	348,136
Total interest bearing liabilities	213,893	38,029	200,239	144,223	16,018	-	612,402
Customer accounts	204,032	-	-	-	-	-	204,032
Derivative financial instruments	3,383	-	-	-	-	-	3,383
Provisions	-	-	-	-	-	2,061	2,061
Current income tax liability	-	1,800	-	-	-	-	1,800
Deferred income tax liability	-	-	-	-	-	2,289	2,289
Other liabilities	8,650	4,504	-	-	-	-	13,154
TOTAL LIABILITIES	429,958	44,333	200,239	144,223	16,018	4,350	839,121
Liquidity gap	(128,035)	39,947	(19,201)	102,449	12,580		
Interest sensitivity gap	(74,400)	35,672	(19,215)	95,530	12,580		
Cumulative interest sensitivity gap	(74,400)	(38,728)	(57,943)	37,587	50,167		
Cumulative interest sensitivity gap as a percentage of total assets	(7.8 %)	(4. 0%)	(6. 0%)	3.9%	5.2%		

(in Georgian Lari and in thousands, unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2005 Total
ASSETS							
Loans and advances to banks	61,340	6,772	1,637	717	-	-	70,466
Loans to customers	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
Total interest bearing assets	129,026	63,107	96,341	148,685	17,780	386	455,325
Cash and balances with the NBG	53,545	-	-	-	-	40,828	94,373
Derivative financial instruments	1,593	-	-	-	1,392	-	2,985
Investments in associates	-	-	-	-	-	843	843
Investments available-for-sale	-	-	-	203	-	-	203
Property and equipment	-	-	-	-	-	36,671	36,671
Intangible assets	-	-	-	-	-	346	346
Other assets	5,765	-	-	-	-	-	5,765
TOTAL ASSETS	189,929	63,107	96,341	148,888	19,172	79,074	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	1,592	-	-	-	-	-	1,592
Customer accounts	137,624	-	-	-	-	-	137,624
Provisions	-	-	-	-	-	1,091	1,091
Current income tax liabilities	-	-	4,831	-	-	-	4,831
Deferred income tax liabilities	-	-	-	-	-	2,872	2,872
Other liabilities	6,481	194	805	59	-	-	7,539
TOTAL LIABILITIES	273,645	40,318	102,158	63,597	13,042	3,963	496,723
Liquidity gap	(83,716)	22,789	(5,817)	85,291	6,130		
Interest sensitivity gap	1,078	22,983	(181)	85,147	4,738		
Cumulative interest sensitivity	1,078	24,061	23,880	109,027	113,765		
Cumulative interest sensitivity gap as a percentage of total assets	0.2%	4.0%	4.0%	18.3%	19.1%		

(in Georgian Lari and in thousands, unless otherwise stated)

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 ALMC controls currency risk by management of the open currency position on the estimated basis of GEL devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of national (central) banks.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	**USD** USD 1 = GEL 1.714	**EUR** EUR 1 = GEL 2.256	**Other currency**	**31 December 2006 Total**
ASSETS					
Cash and balances with the NBG	98,042	94,672	4,340	371	197,425
Loans and advances to banks	127	30,992	18,138	373	49,630
Derivative financial instruments	-	1,177	3,384	-	4,561
Loans to customers	110,433	449,467	14,293	-	574,193
Net investment in finance lease	88	14,668	323	-	15,079
Investments available-for-sale	4,602	-	-	-	4,602
Investments held-to-maturity	50,253	-	-	-	50,253
Investments in associates	462	-	-	-	462
Property and equipment	51,254	-	-	-	51,254
Intangible assets	543	-	-	-	543
Other assets	6,777	4,683	273	-	11,733
TOTAL ASSETS	322,581	595,659	40,751	744	959,735
LIABILITIES					
Loans and advances from banks and credit institutions	31,214	230,400	2,652	-	264,266
Derivative financial instruments	-	3,383	-	-	3,383
Customer accounts	148,961	363,290	38,794	1,123	552,168
Provisions	523	934	604	-	2,061
Current income tax liability	1,800	-	-	-	1,800
Deferred income tax liability	2,289	-	-	-	2,289
Other liabilities	7,827	5,101	180	46	13,154
TOTAL LIABILITIES	192,614	603,108	42,230	1,169	839,121
OPEN BALANCE SHEET POSITION	129,967	(7,449)	(1,479)	(425)	

(in Georgian Lari and in thousands, unless otherwise stated)

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2006:

	GEL	USD USD 1 = 1.714 GEL	EUR EUR 1 = 2.256 GEL	Other currency	31 December 2006 Total
Accounts payable on spot and derivative contracts	-	3,383	-	-	3,383
Accounts receivable on spot and derivative contracts	-	1,177	3,384	-	4,561
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	-	(2,206)	3,384	-	
TOTAL OPEN POSITION	-	(2,206)	3,384	-	

	GEL	USD USD 1 = 1.793 GEL	EUR EUR 1 = 2.125 GEL	Other currency	31 December 2005 Total
ASSETS					
Cash and balances with the NBG	77,386	12,532	4,117	338	94,373
Loans and advances to banks	2,311	44,758	21,751	1,646	70,466
Derivative financial instruments	-	1,392	1,593	-	2,985
Loans to customers	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
Property and equipment	36,671	-	-	-	36,671
Intangible assets	346	-	-	-	346
Other assets	5,064	690	11	-	5,765
TOTAL ASSETS	226,066	337,375	31,086	1,984	596,511
LIABILITIES					
Loans and advances from banks and credit institutions	13,281	73,003	12,244	-	98,528
Derivative financial instruments	-	1,592	-	-	1,592
Customer accounts	89,785	266,892	23,593	-	380,270
Provisions	383	553	155	-	1,091
Current income tax liability	4,831	-	-	-	4,831
Deferred income tax liability	2,872	-	-	-	2,872
Other liabilities	6,933	537	69	-	7,539
TOTAL LIABILITIES	118,085	342,577	36,061	-	496,723
OPEN POSITION	107,981	(5,202)	(4,975)	1,984	

(in Georgian Lari and in thousands, unless otherwise stated)

Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2005:

	GEL	USD USD 1 = 1.793 GEL	EUR EUR 1 = 2.125 GEL	Other currency	31 December 2005 Total
Accounts payable on spot and derivative contracts	-	1,592	-	-	1,592
Accounts receivable on spot and derivative contracts	-	1,392	1,593	-	2,985
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	-	(200)	1,593	-	
TOTAL OPEN POSITION	-	(200)	1,593	-	

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 risksof its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a 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 manage fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control 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.

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.

(in Georgian Lari and in thousands, unless otherwise stated)

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

	Georgia	OECD countries	Non-OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the NBG	196,307	1,118	-	197,425
Loans and advances to banks	7,983	34,483	7,164	49,630
Derivative financial instruments	-	4,561	-	4,561
Loans to customers	574,193	-	-	574,193
Net investment in finance lease	15,079	-	-	15,079
Investments available-for-sale	4,602	-	-	4,602
Investments held-to-maturity	50,253	-	-	50,253
Investments in associates	462	-	-	462
Property and equipment	51,254	-	-	51,254
Intangible assets	543	-	-	543
Other assets	10,579	1,154	-	11,733
TOTAL ASSETS	911,255	41,316	7,164	959,735
LIABILITIES				
Loans and advances from banks and credit institutions	35,043	222,576	6,647	264,266
Derivative financial instruments	-	3,383	-	3,383
Customer accounts	552,168	-	-	552,168
Provisions	2,061	-	-	2,061
Current income tax liability	1,800	-	-	1,800
Deferred income tax liability	2,289	-	-	2,289
Other liabilities	13,154	-	-	13,154
TOTAL LIABILITIES	606,515	225,959	6,647	839,121
NET POSITION	304,740	(184,643)	517	

(in Georgian Lari and in thousands, unless otherwise stated)

	Georgia	OECD countries	Non-OECD countries	31 December 2005 Total
ASSETS				
Cash and balances with the NBG	94,373	-	-	94,373
Loans and advances to banks	19,361	37,696	13,409	70,466
Derivative financial instruments	-	2,985	-	2,985
Loans to customers	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
Property and equipment	36,671	-	-	36,671
Intangible assets	346	-	-	346
Other assets	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	-	1,592	-	1,592
Customer accounts	380,270	-	-	380,270
Provisions	1,091	-	-	1,091
Current income tax liability	4,831	-	-	4,831
Deferred income tax liability	2,872	-	-	2,872
Other liabilities	7,539	-	-	7,539
TOTAL LIABILITIES	417,053	69,051	10,619	496,723
NET POSITION	125,368	(28,370)	2,790	