

JSC Standard Bank
Financial Statements

Years ended December 31, 2005

Together with Report of Independent Auditors

CONTENTS

REPORT OF INDEPENDENT AUDITORS

Balance sheets	1
Statements of income	2
Statements of changes in equity	3
Statements of cash flows	4

NOTES TO FINANCIAL STATEMENT

1. Principal activities	5
2. Basis of preparation	5
3. Significant accounting policies	6
4. Significant accounting judgments and uncertainties	11
5. Cash and cash equivalents	11
6. Amounts due from credit institutions	11
7. Loans to customers	12
8. Taxation	12
9. Allowances for impairment and provisions	13
10. Property and equipment	14
11. Intangible assets	15
12. Other assets and liabilities	15
13. Amounts owed to credit institutions	16
14. Loans owed to related party	16
15. Amounts owed to customers	16
16. Equity	17
17. Commitments and contingencies	17
18. Salaries and administrative expenses	18
19. Financial risk management	18
20. Fair values of financial instruments	21
21. Related party transactions	22
22. Capital adequacy	23

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of JSC Standard Bank –

We have audited the accompanying balance sheet of JSC Standard Bank (the “Bank”) as of December 31, 2005 and the related statements of income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 3, 2006

BALANCE SHEETS**As of December 31, 2005 and 2004***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Assets			
Cash and cash equivalents	5	2,257	3,816
Amounts due from credit institutions	6	860	271
Loans to customers	7	18,978	5,575
Property and equipment	10	831	639
Intangible assets	11	205	14
Tax assets	8	245	161
Other assets	12	187	117
Total assets		23,563	10,593
Liabilities			
Amounts owed to credit institutions	13	1,610	-
Loans owed to related party	14	7,200	-
Amounts owed to customers	15	7,326	2,422
Amounts owed to state institutions		-	1,000
Other liabilities	12	115	74
Total liabilities		16,251	3,496
Equity			
Share capital	16	6,900	6,900
Retained earnings		412	197
Total equity		7,312	7,097
Total equity and liabilities		23,563	10,593
Financial commitments and contingencies	17	1,097	514

Signed and authorized for release on behalf of the Management Board of the Bank:

George Kalandarishvili

General Director

Irina Vorman

Chief Accountant

April 3, 2006

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

STATEMENTS OF INCOME**For the years ended December 31, 2005 and 2004***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Interest income			
Loans to customers		2,908	1,376
Amounts due from credit institutions		83	36
Securities		1	199
		2,992	1,611
Interest expense			
Amounts owed to credit institutions		413	20
Amounts owed to customers		306	64
Loans owed to related party		29	-
		748	84
Net interest income		2,244	1,527
Impairment of interest earning assets	9	223	58
Net interest income after impairment of interest earning assets		2,021	1,469
Fee and commission income		165	153
Fee and commission expense		124	37
Net fee and commission income		41	116
Gains less losses from foreign currencies:			
- dealing		132	73
- translation differences		(80)	(836)
Other income		227	7
Other non interest income (expense)		279	(756)
Salaries and other employee benefits	18	1,044	923
Administrative expenses	18	927	572
Depreciation and amortization	10, 11	199	150
Impairment of other assets	9	40	19
Other non interest expense		2,210	1,664
Income (loss) before taxation		131	(835)
Income tax benefit	8	84	22
Net income (loss)		215	(813)

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**For the years ended December 31, 2005 and 2004***(Thousands of Georgian Lari)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
December 31, 2003	6,900	1,010	7,910
Net loss of the year	-	(813)	(813)
December 31, 2004	6,900	197	7,097
Net income for the year	-	215	215
December 31, 2005	6,900	412	7,312

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

STATEMENTS OF CASH FLOWS**For the years ended December 31, 2005 and 2004***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Cash flows from operating activities			
Interest received		2,898	1,611
Interest paid		(676)	(84)
Fees and commissions received		165	153
Fees and commissions paid		(124)	(37)
Currency dealing gains received		132	73
Other operating income (expenses)		(46)	7
Salaries and other employee benefits paid		(1,044)	(923)
Administrative expenses		(927)	(572)
Cash flows from operating activities before changes in operating assets and liabilities		378	228
<i>Net (increase)/decrease in operating assets</i>			
Obligatory reserve with the National Bank of Georgia		-	(208)
Amounts due from credit institutions		(662)	1,003
Loans to customers		(13,599)	184
Other assets		(71)	221
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts owed to credit institutions		8,810	-
Amounts owed to customers		4,951	1,672
Amounts owed to state institutions		(1,000)	(1,029)
Other liabilities		(13)	(4)
Net cash provided by / (used in) operating activities before income tax		(1,206)	2,067
Income tax paid		-	(88)
Net cash provided by / (used in) operating activities		(1,206)	1,979
Cash flows from investing activities			
Purchase of property and equipment		(604)	(97)
Proceeds from sale of property and equipment		487	14
Purchase of intangible assets		(160)	-
Purchase of investments securities		(14)	-
Proceeds from sale and redemption of investment securities		-	1,195
Net cash provided by / (used in) investing activities		(291)	1,112
Net cash provided by / (used in) financing activities		-	-
<i>Effect of exchange rates changes on cash and cash equivalents</i>		<i>(62)</i>	<i>(47)</i>
Net increase / (decrease) in cash and cash equivalents		(1,559)	3,044
Cash and cash equivalents, beginning		3,816	772
Cash and cash equivalents, ending	5	2,257	3,816

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

(Thousands of Georgian Lari)

1. Principal activities

JSC Standard Bank (the “Bank”) was founded on the basis of JSC Agro-business Bank of Georgia (“ABG”), on June 7, 2005. 100% of ABG shares were purchased by four companies. National Bank of Georgia granted a full scope banking license to ABG on December 10, 1999, and the bank started its banking operations on February 21, 2000. ABG was founded for the purpose of facilitating the development of Georgian agriculture, by providing relatively cheap, national currency denominated financing to farmers and other companies/individuals employed in this sector of economy.

The Bank today accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Tbilisi and it has six representation offices around the country. The Bank’s registered legal address is Chavchavadze Avenue 43, Tbilisi, Georgia.

As of December 31, 2005 and 2004 shareholders of the Bank were:

Shareholder	2005	2004
Discovery Investment Holding Ltd.	25%	25%
Lucente Investments Inc.	25%	25%
Webster Group Inc.	25%	25%
Westfor Panally Ltd.	25%	25%
Total	100%	100%

Ultimate dominating shareholder of the Bank is a single citizen of Georgia – Mr. Badri Patarkatsishvili. As of December 31, 2005, Head of the Supervisory Board of the Bank had the power of attorney from the ultimate owner of the Bank to manage 100% of the Bank’s shares.

As of December 31, 2005 the Bank had 71 employees (2004 – 59).

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. These financial statements are based on the Bank’s books and records, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated.

Use of estimates, assumptions and judgements

Preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IAS 21 (revised) “The Effects of Changes in Foreign Exchange Rates”;
IAS 24 (revised) “Related Party Disclosures”;
IAS 32 (revised) “Financial Instruments: Presentation and Disclosure”; and
IAS 39 (revised) “Financial Instruments: Recognition and Measurement”.
IAS 39 (amended 2004) “Financial Instruments: Recognition and Measurement”

(Thousands of Georgian Lari)

The gains and losses on the re-measurement of financial assets available-for-sale to fair value are recognized as a separate component of equity. A gain or loss on an available-for-sale financial asset shall be recognised directly in equity (including reversal of impairment losses for equity instruments), through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 19 (amended 2004) "Employee Benefits";
IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application.

3. Significant accounting policies

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets after initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated statement of income when the investments are de-recognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(Thousands of Georgian Lari)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is de-recognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognized in the statement of income.

Fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount due from the NBG, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Borrowings, which include amounts owed to the National Bank of Georgia, amounts owed to credit institutions, amounts owed to customers, debt securities issued and other borrowed funds, are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in income when the liabilities are derecognized as well as through the amortization process.

Leases

Operating - Bank as lessee

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

Operating - Bank as lessor

The Bank presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or Bank of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

(Thousands of Georgian Lari)

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Bank of financial assets with similar credit risk characteristics and that Bank of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

When a loan is uncollectible, is it written off against the related allowance for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for loan impairment in the statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Bank of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a

(Thousands of Georgian Lari)

derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgian Tax Code.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25
Furniture and fixtures	5
Computers and office equipment	5
Motor vehicles	5

Leasehold improvements are amortized over the life of the related leased asset. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite. Intangible assets with finite lives are amortized over the useful economic lives of five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

(Thousands of Georgian Lari)

Costs associated with maintaining computer software programs are recorded as an expense as incurred.

Repossessed assets

Repossessed assets comprise of the assets, ownership title for which was transferred to the Bank as a result of the failure by the Bank's borrowers to repay their loans obtained from the Bank. Practically, these are the assets repossessed by the Bank from its defaulted borrowers and they have been initially placed as a security against loans obtained by these borrowers from the Bank.

When a loan is written off, assets placed by respective borrowers against respective loans are transferred to the Bank through a legal trial. Repossessed assets are recognized by the Bank when respective ownership title to an asset is approved by the legitimate court. Repossessed assets are initially recognized and further carried at the amount equal to the amortized cost of the loans written off for the respective borrowers. This is the fair value of consideration given up to acquire the repossessed assets.

When repossessed assets are further realized by the Bank, any difference between the carrying value of the asset and the fair value of consideration received for such assets is recorded as a realized gain or loss in the statement of income for the respective period.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Segment reporting

The Bank's operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for 100% of the Bank's business. Accordingly, for the purposes of IAS 14 "Segment Reporting", the Bank is treated as one business segment. The Bank's assets are concentrated primarily in Georgia, and the majority of the Bank's revenues and net income is derived from operations in, and connected with, Georgia.

Share capital

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

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

Contingencies

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the balance sheet but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an

(Thousands of Georgian Lari)

adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at December 31, 2005 and 2004 were 1.7925 Lari and 1.825 Lari to 1 USD, respectively.

4. Significant accounting judgments and uncertainties

Estimation uncertainty

The 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 year are discussed below:

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

As of December 31, cash and cash equivalents comprise:

	<u>2005</u>	<u>2004</u>
Cash on hand	734	241
Current accounts with the National Bank of Georgia	392	1,074
Current accounts with other credit institutions	1,131	2,501
Cash and cash equivalents	<u>2,257</u>	<u>3,816</u>

6. Amounts due from credit institutions

As of December 31, amounts due from credit institutions comprise:

	<u>2005</u>	<u>2004</u>
Obligatory reserve with the National Bank of Georgia	782	235
Loans issued to other credit institutions	78	36
Amounts due from credit institutions	<u>860</u>	<u>271</u>

(Thousands of Georgian Lari)

Credit institutions are required to maintain an -interest earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is not restricted by the statutory legislation.

7. Loans to customers

As of December 31, loans to customers comprise:

	<u>2005</u>	<u>2004</u>
Loans to customers	18,722	5,860
Overdrafts	703	-
	<u>19,425</u>	<u>5,860</u>
Less – Allowance for loan impairment (Note 9)	(447)	(285)
Loans to customers	<u>18,978</u>	<u>5,575</u>

As of December 31, 2005, the Bank had a concentration of loans represented by GEL 7,832 due from the ten largest third party borrowers (40% of gross loan portfolio) (2004 - GEL 1,755 or 31% of gross loan portfolio). An allowance of GEL 157 (2004 - GEL 46) was made against these loans.

As of December 31, loans have been extended to the following types of customers:

	<u>2005</u>	<u>2004</u>
Private companies	10,073	2,489
Individuals	9,352	3,371
Loans to customers	<u>19,425</u>	<u>5,860</u>

As of December 31 loans, are made principally within Georgia in the following industry sectors:

	<u>2005</u>	<u>2004</u>
Trading and service enterprises	6,925	2,516
Real estate construction	4,333	-
Individuals	3,243	323
Agriculture and food processing	3,232	2,985
Transport & telecommunication	512	-
Other	1,180	36
Loans to customers	<u>19,425</u>	<u>5,860</u>

8. Taxation

As of December 31, the corporate income tax expense comprises:

	<u>2005</u>	<u>2004</u>
Deferred tax benefit – reversal of temporary differences	84	22
Income tax benefit	<u>84</u>	<u>22</u>

Georgian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. The tax rate for banks for profits other than on state securities was 20% in 2005 and 2004. The tax rate for interest income on state securities was 10%.

(Thousands of Georgian Lari)

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

	<u>2005</u>	<u>2004</u>
Net income (loss) before taxation	133	(835)
Statutory tax rate	20%	20%
Theoretical income tax benefit (expense) at the statutory rate	(27)	167
Tax exempt income	111	-
Non-deductible expenditures	-	(145)
Income tax benefit	84	22

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), one turnover based tax, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, implementing regulations are often unclear or nonexistent and few precedents have been established. It creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Deferred tax assets and liabilities as of December 31 and their movements for the respective years comprise:

	<u>2005</u>	<u>2004</u>
Tax effect of deductible temporary differences:		
Loans to customers	24	26
Tax losses carried forward	134	48
Deferred tax asset	158	74
Tax effect of taxable temporary differences:		
Property and equipment	-	-
Deferred tax liability	-	-
Deferred tax asset	158	74

As of December 31, tax assets consist of the following:

	<u>2005</u>	<u>2004</u>
Current tax asset	87	87
Deferred tax asset	158	74
Tax asset	245	161

9. Allowances for impairment and provisions

Movements in allowances for impairment of interest earning assets were as follows:

	<u>Loans to customers</u>
December 31, 2003	277
Charge for the year	58
Write-offs	(50)
Recoveries	-
December 31, 2004	285
Charge for the year	223
Write-offs	(118)
Recoveries	57
December 31, 2005	447

(Thousands of Georgian Lari)

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

	<i>Other assets</i>	<i>Other risks</i>	<i>Total</i>
December 31, 2003	41	-	41
Charge for the year	19	-	19
Write-offs	(4)	-	(4)
December 31, 2004	56	-	56
Charge for the year	15	25	40
Write-offs	(3)	-	(3)
December 31, 2005	68	25	93

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. In accordance with the Georgian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

10. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Furniture, fixtures and equipment	Vehicles	Leasehold improvements	Total
Cost					
December 31, 2004	374	448	101	82	1,005
Additions	-	339	211	88	638
Disposals	276	166	28	17	487
December 31, 2005	98	621	284	153	1,156
Accumulated depreciation					
December 31, 2004	61	251	37	17	366
Charge for the year	7	60	60	25	152
Disposals	10	170	13	-	193
December 31, 2005	58	141	84	42	325
Net book value					
December 31, 2004	313	197	64	65	639
December 31, 2005	40	480	200	111	831

Additions to vehicles during 2005 include GEL 197 of cars gifted to the Bank by Sofreco – a consulting company hired by European Union to assist former ABB in reorganization process. Respective amounts were included in other income for the year.

(Thousands of Georgian Lari)

11. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
Cost			
December 31, 2004	-	22	22
Additions	231	7	238
December 31, 2005	231	29	260
Accumulated amortization			
December 31, 2004	-	8	8
Amortization charge	39	8	47
December 31, 2005	39	16	55
Net book value			
December 31, 2004	-	14	14
December 31, 2005	192	13	205

Additions to licenses during 2005 include GEL 78 of the wire transfer connection module gifted to the Bank by Sofreco – a consulting company hired by European Union to assist former ABB in reorganization process. Respective amounts were included in other income for the year.

12. Other assets and liabilities

As of December 31, other assets comprise:

	<i>2005</i>	<i>2004</i>
Repossessed assets	133	141
Prepayments	99	29
Investment securities	14	
Prepaid operating taxes	4	-
Other debtors	5	3
	255	173
Less – Allowance for impairment of other assets (Note 9)	(68)	(56)
Other assets	187	117

Prepayments as of December 31, 2005 include prepaid rent of GEL 4 and prepaid refurbishment in amount of GEL 25. Repossessed assets comprise of the assets, ownership title for which was transferred to the Bank as a result of the failure by the Bank's borrowers to repay their loans obtained from the Bank. Actually these are the assets repossessed by the Bank from its defaulted borrowers and they have been initially placed as a security against loans obtained by these borrowers from the Bank. The Bank plans to realize these assets as they become demanded on the respective markets.

As of December 31, other liabilities comprise:

	<i>2005</i>	<i>2004</i>
Sundry creditors	86	71
Provisions for contingent liabilities	25	-
Accrued expenses	-	3
Other	4	-
Other liabilities	115	74

Sundry creditors include accrual of audit fees for GEL 82.

(Thousands of Georgian Lari)

13. Amounts owed to credit institutions

As of December 31, amounts owed to credit institutions comprise:

	<u>2005</u>	<u>2004</u>
Time deposits	1,001	-
Loans and advances	<u>609</u>	<u>-</u>
Amounts owed to credit institutions	<u>1,610</u>	<u>-</u>

Time deposit comprises of a deposit received from a Georgian commercial bank, including respective accrued interest.

14. Loans owed to related party

Loans owed to related party comprise of GEL equivalent of 4,016 thousand USD outstanding for the three (3) loans received from Standard Capital – a local investment fund controlled by the shareholders of the Bank. Two of these loans were granted with the contractual maturity of 1 year and annual interest charged at the rate of 11% of outstanding principal. The third loan was granted with the contractual maturity of 20 years, with a 10-year grace period for principal repayment and annual interest charged at the rate of 11% of outstanding principal. The third loans comprising equivalent of 3,001 thousand USD in GEL as of December 31, 2005 is a subordinated loan. When obtaining these loans no origination or disbursement fees or commissions were charged to the Bank.

15. Amounts owed to customers

As of December 31, the amounts owed to customers include the following:

	<u>2005</u>	<u>2004</u>
Current accounts	2,640	1,748
Time deposits	<u>4,686</u>	<u>674</u>
Amounts owed to customers	<u>7,326</u>	<u>2,422</u>
Held as security against guarantees	23	-
Held as security against assets held for sale (frozen accounts)	60	40

As of December 31, 2005, GEL 4,476 (61% of total amounts owed to customers) was owed to nine largest customers of the Bank. Out of it, 69% were owed to related parties. As of December 31, 2004 GEL 1,873 (77% of total amounts owed to customers) were owed to 30 largest customers of the Bank.

Current accounts of the Bank's customers are non-interest-bearing. Time deposit accounts bear 2.75% – 11% annual interest (4%-12% in 2004).

An analysis of customer accounts by economic sectors as of December 31, 2005 is follows:

	<u>GEL</u>	<u>FC</u>	<u>Total</u>
Individuals	287	3,318	3,605
Finance	-	1,819	1,819
Trade	166	466	632
Insurance	-	179	179
Agriculture	56	2	58
Other	<u>761</u>	<u>272</u>	<u>1,033</u>
Amounts owed to customers	<u>1,270</u>	<u>6,056</u>	<u>7,326</u>

(Thousands of Georgian Lari)

16. Equity

There was no movement during 2005 and 2004 in the Bank's authorized, fully paid and outstanding share capital. As of December 31, 2005 and 2004 share capital of the Bank comprised GEL 6,900 and consisted of 138 common shares with par value of 50 Georgian Lari each.

Share capital of the Bank was contributed by the shareholders in Georgian Lari and they are entitled to dividends and any capital distribution in Georgian Lari. Nominally, shareholders of the Bank, all having equal shares, are four off-shore companies. However, the ultimate dominating owner of the Bank is a single citizen of Georgia – Mr. Badri Patarkatsishvili. In 2005, the four non-resident companies, on behalf of the ultimate owner, acquired 100% of the Bank's equity from its prior owners – four non-governmental, not-for-profit organizations that were founded by the European Commission and the Government of Georgia.

The Bank did not declare any dividends either in 2005 or 2004.

17. Commitments and contingencies

Operating environment

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

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

Legal

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

Financial commitments and contingencies

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

	<u>2005</u>	<u>2004</u>
Credit related commitments		
Un-drawn loan commitments	214	65
Guarantees	906	449
	<u>1,120</u>	<u>514</u>
Less – Cash held as security against guarantees	(23)	-
Financial commitments and contingencies	<u><u>1,097</u></u>	<u><u>514</u></u>

Insurance

The Bank's premises in 2005 were insured for GEL 725 (GEL 594 in 2004). The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not widely practiced in Georgia at present.

(Thousands of Georgian Lari)

18. Salaries and administrative expenses

Salaries and other employee benefits, as well as administrative expenses for the years ended December 31, 2005 and 2004 comprise:

	<u>2005</u>	<u>2004</u>
Salaries and bonuses	773	705
Social security costs	271	218
Salaries and other employee benefits	<u>1,044</u>	<u>923</u>
Business development	195	34
Communication and supplies	120	131
Fines and penalties incurred	121	-
Occupancy and rent	118	104
Professional services	82	76
Operating taxes	15	28
Other	276	199
Administrative expenses	<u>927</u>	<u>572</u>

19. Financial risk management

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank 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 and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

(Thousands of Georgian Lari)

Geographical concentration

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

	2005				2004			
	Georgia	OECD	Non-OECD	Total	Georgia	OECD	Non-OECD	Total
Assets:								
Cash and cash equivalents	2,187	70	-	2,257	1,493	2,315	8	3,816
Due from credit institutions	860	-	-	860	271	-	-	271
Loans to customers	18,978	-	-	18,978	5,575	-	-	5,575
All other assets	1,468	-	-	1,468	931	-	-	931
	23,493	70	-	23,563	8,270	2,315	8	10,593
Liabilities:								
Owed to credit institutions	1,610	-	-	1,610	-	-	-	-
Loans owed to related party	7,200	-	-	7,200	-	-	-	-
Owed to customers	7,304	-	22	7,326	2,422	-	-	2,422
Owed to state institutions	-	-	-	-	1,000	-	-	1,000
All other liabilities	115	-	-	115	74	-	-	74
	16,229	-	22	16,251	3,496	-	-	3,496
Net balance sheet position	7,264	70	(22)	7,312	4,774	2,315	8	7,097

Market risk

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

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the National Bank of Georgia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	2005			2004		
	GEL	Foreign currencies	Total	GEL	Foreign currencies	Total
Assets:						
Cash and cash equivalents	1,590	667	2,257	1,173	2,643	3,816
Due from credit institutions	782	78	860	235	36	271
Loans to customers	4,648	14,330	18,978	28	5,547	5,575
All other assets	1,464	4	1,468	929	2	931
	8,484	15,079	23,563	2,365	8,228	10,593
Liabilities:						
Owed to credit institutions	1,001	609	1,610	-	-	-
Loans owed to related party	-	7,200	7,200	-	-	-
Owed to customers	1,270	6,056	7,326	369	2,053	2,422
Owed to state institutions	-	-	-	1,000	-	1,000
All other liabilities	115	-	115	71	3	74
	2,386	13,865	16,251	1,440	2,056	3,496
Net balance sheet position	6,098	1,214	7,312	925	6,172	7,097

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Georgian Lari. As a result, future movements in the exchange rate between the Georgian Lari and USD or Euro will affect the carrying value of the Bank's USD or Euro denominated monetary assets and liabilities.

(Thousands of Georgian Lari)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Committee monitors the reprising profile of its financial assets and liabilities and does not consider that the Bank is exposed to significant interest rate risk or consequential cash flow risk. Additionally, the maturity analysis included in the liquidity risk table above, reasonably approximates the reprising profile of the Bank's assets and liabilities.

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

	2005		2004	
	GEL	USD	GEL	USD
Bank rates				
Due from credit institutions	6.7%	8.8%	-	-
Loans to customers	18%	22%	22%	24%
Owed to credit institutions	-	9%	22%	24%
Loans owed to related party	-	11%	-	-
Owed to customers	7%	9%	-	12%
Market rates				
Due from credit institutions	7.1%	8%	-	-
Loans to customers	19%	16%	24.0%	21.3%
Owed to credit institutions	7.1%	8%	5.0%	14.9%
Owed to customers	8%	9%	5.2%	9.2%

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

(Thousands of Georgian Lari)

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

	2005							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	2,257	-	-	-	-	-	-	2,257
Due from credit institutions	782	78	-	-	-	-	-	860
Loans to customers	-	156	671	8,553	8,630	952	16	18,978
	3,039	234	671	8,553	8,630	952	16	22,095
Liabilities:								
Owed to credit institutions	-	1,610	-	-	-	-	-	1,610
Loans owed to related party	-	-	-	-	-	7,200	-	7,200
Owed to customers	6,275	49	9	519	474	-	-	7,326
	6,275	1,659	9	519	474	7,200	-	16,136
Net position	(3,236)	(1,425)	662	8,034	8,156	(6,248)	16	5,959
Accumulated gap	(3,236)	(4,661)	(3,999)	4,035	12,191	5,943	5,959	
	2004							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past due</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	3,816	-	-	-	-	-	-	3,816
Due from credit institutions	-	235	-	36	-	-	-	271
Loans to customers	-	35	181	2,743	2,524	-	92	5,575
	3,816	270	181	2,779	2,524	-	92	9,662
Liabilities:								
Owed to state institutions	-	-	-	1,000	-	-	-	1,000
Owed to customers	2,349	-	36	37	-	-	-	2,422
	2,349	-	36	1,037	-	-	-	3,422
Net position	1,467	270	145	1,742	2,524	-	92	6,240
Accumulated gap	1,467	1,737	1,882	3,624	6,148	6,148	6,240	

The Bank's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. Long-term credits are generally not available in Georgia, except for programs established by international financial institution. However, in the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

20. Fair values of financial instruments

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

(Thousands of Georgian Lari)

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

Amounts due from and owed to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets maturing in over one month, the fair value represents the present value of estimated future cash flows discounted at the average year-end market rates. For longer-term deposits, the interest rates applicable as of December 31, 2005 and 2004 reflect market rates and, consequently, the fair value approximates the carrying amounts.

Investment securities

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

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

Loans to customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. As of December 31, 2005 and 2004, fair value of loans to customers approximates their carrying value.

Amounts owed to customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As of December 31, 2005 and 2004, fair value of amounts owed to customers approximates their carrying value.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value:

	2005		2004	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets				
Amounts due from credit institutions	860	860	271	271
Loans to customers	18,978	18,978	5,575	5,575
Financial liabilities				
Amounts owed to credit institutions	1,610	1,610	-	-
Subordinated loans owed to related party	7,200	7,200	-	-
Amounts owed to customers	7,326	7,326	2,422	2,422
Amounts owed to state institutions	-	-	1,000	1,000

21. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(Thousands of Georgian Lari)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2005				2004			
	Share-holders	Entities under common control	Key management personnel	Associates	Share-holders	Entities under common control	Key management personnel	Associates
Loans outstanding as of January 1, gross	-	-	47	-	-	-	53	-
Loans issued during the year	2,178	4,947	334	4,100	-	-	98	-
Loan repayments during the year	2,119	3,493	337	63	-	-	104	-
Loans outstanding as of December 31, gross	59	1,454	44	4,037	-	-	47	-
Less: allowance for impairment as of December 31	1	29	1	80	-	-	1	-
Loans outstanding as of December 31, net	58	1,425	43	3,957	-	-	46	-
Deposits as of January 1	-	-	2	-	-	-	-	-
Deposits received during the year	-	-	199	-	-	-	-	-
Deposits repaid during the year	-	-	109	-	-	-	-	-
Deposits as of December 31	-	-	92	-	-	-	-	-
Subordinated loans as of January 1	-	-	-	-	-	-	-	-
Loans received during the year	-	8,247	-	-	-	-	-	-
Loans repaid during the year	-	1,047	-	-	-	-	-	-
Subordinated loans as of December 31	-	7,200	-	-	-	-	-	-
Interest income on loans	165	176	8	8	-	-	9	-
Impairment expense on loans	-	29	1	81	-	-	1	-
Interest expense on deposits	-	-	1	-	-	-	-	-

All of the above transactions with related parties were conducted on market conditions. In addition to the above information, compensation of key management personnel for the years ended December 31, 2005 and 2004 comprised of the following:

	2005	2004
Salaries and other short-term benefits	253	132
Social security costs	51	41
Total key management compensation	304	173

22. Capital adequacy

NBG requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on NBG requirements. As of December 31, 2005 and 2004, the Bank's capital adequacy ratio on this basis exceeded the required statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2005 and 2004, was 33% and 79%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.