Bank of Georgia Group

Unaudited Interim Consolidated Financial Statements

For the nine months ended September 30, 2006

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REPORT ON REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim consolidated balance sheet of JSC Bank of Georgia (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2006 and the related interim consolidated statements of income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Audit LLC

November 7, 2006
Tbilisi, Georgia

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As of September 30, 2006

(Thousands of Georgian Lari)

	Notes	September 30, 2006 (unaudited)	December 31, 2005 (audited)
Assets			
Cash and cash equivalents	5	116,483	57,236
Amounts due from credit institutions	6	56,192	33,398
Loans to customers, net	7	560,403	297,376
Net investment in lease	8	9,053	4,314
Investment securities:			
- available-for-sale	9	6,161	8,327
- held-to-maturity	9	253	2,280
Property and equipment, net	10	52,627	35,815
Intangible assets, net	11	25,551	7,685
Income tax assets	12	–	2,570
Prepayments		3,207	455
Other assets	14	26,784	11,114
Total assets		**856,714**	**460,570**
Liabilities			
Amounts owed to credit institutions	15	223,203	78,873
Amounts owed to customers	16	467,993	269,952
Debt securities issued	17	1,128	1,143
Income tax liabilities	12	3,881	2,087
Provisions	13	–	975
Other liabilities	14	23,430	16,078
Total liabilities		**719,635**	**369,108**
Equity	18		
Share capital		16,738	14,729
Share premium		59,866	32,922
Treasury shares		(201)	(81)
Retained earnings		54,231	37,427
Other reserves		5,285	5,369
Total equity attributable to shareholders		**135,919**	**90,366**
Minority interest		1,160	1,096
Total equity		**137,079**	**91,462**
Total liabilities and equity		**856,714**	**460,570**

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

Irakli Gilauri General Director

Irakli Burdiladze Chief Financial Officer

November 7, 2006

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

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Notes	For the nine months ended September 30	
		2006 (unaudited)	2005
Interest income			
Loans to customers		59,764	32,475
Amounts due from credit institutions		2,100	1,168
Debt securities owned		344	2,113
Net investment in lease		915	251
		63,123	**36,007**
Interest expense			
Amounts owed to customers		12,451	6,444
Amounts owed to credit institutions		9,219	2,594
Debt securities issued		130	4
		21,800	**9,042**
Net interest income		**41,323**	**26,965**
Impairment of interest earning assets	13	10,665	5,602
Net interest income after impairment of interest earning assets		**30,658**	**21,363**
Fees and commissions income		19,783	11,720
Fees and commissions expense		(3,885)	(2,268)
Net fees and commissions income	20	**15,898**	**9,452**
Gains less losses from foreign currencies:			
- dealing		8,195	4,624
- translation differences		(302)	41
Net insurance premiums earned		4,415	2,487
Other operating income		2,706	601
Other non-interest income		**15,014**	**7,753**
Salaries and other employee benefits	21	21,855	16,576
Administrative expenses	21	13,304	7,727
Depreciation, amortization and impairment	10, 11	3,830	3,135
Net insurance claims incurred		1,358	269
Reversal of impairment of other assets and provisions	13	(740)	(1,049)
Other non-interest expense		**39,607**	**26,658**
Income before income tax expense		**21,963**	**11,910**
Income tax expense	12	4,662	3,095
Net income for the period		**17,301**	**8,815**
Attributable to:			
- shareholders of the Group		17,440	9,014
- minority interest		(139)	(199)
		17,301	**8,815**
Earnings per share (in Georgian Lari):	18		
- basic		1.12	0.6
- diluted		1.12	0.6

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

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Share premium*	*Treasury shares*	*Retained earnings*	*Other reserves*	*Total*	*Minority interest*	*Total equity*
December 31, 2005	**14,729**	**32,922**	**(81)**	**37,427**	**5,369**	**90,366**	**1,096**	**91,462**
Depreciation of revaluation reserve, net of tax *(unaudited)*	–	–	–	84	(84)	–	–	–
Net change in investment securities available for sale, net of tax *(unaudited)*	–	–	–	55	–	55	–	55
Total income and expense recognised directly in equity *(unaudited)*	**–**	**–**	**–**	**139**	**(84)**	**55**	**–**	**55**
Net income for the period *(unaudited)*	–	–	–	17,440	–	17,440	(139)	17,301
Total income and expense for the period *(unaudited)*	**–**	**–**	**–**	**17,579**	**(84)**	**17,495**	**(139)**	**17,356**
Issuance of share capital (Note 18) *(unaudited)*	2,009	28,385	–	–	–	30,394	–	30,394
Dividends declared (Note 18) *(unaudited)*	–	–	–	(775)	–	(775)	–	(775)
Minority interest through acquisition *(unaudited)*	–	–	–	–	–	–	305	305
Acquisition of minority interests in existing subsidiaries *(unaudited)*	–	–	–	–	–	–	(102)	(102)
Purchase of the treasury shares by subsidiary *(unaudited)*	–	(1,441)	(120)	–	–	(1,561)	–	(1,561)
September 30, 2006 *(unaudited)*	**16,738**	**59,866**	**(201)**	**54,231**	**5,285**	**135,919**	**1,160**	**137,079**
December 31, 2004	**11,273**	**13,376**	**(73)**	**23,911**	**5,492**	**53,979**	**1,481**	**55,460**
Depreciation of revaluation reserve, net of tax *(unaudited)*	–	–	–	84	(84)	–	–	–
Net change in investment securities available for sale, net of tax *(unaudited)*	–	–	–	23	–	23	–	23
Total income and expense recognised directly in equity *(unaudited)*				**107**	**(84)**	**23**	**–**	**23**
Net income for the period *(unaudited)*	–	–	–	9,014	–	9,014	(199)	8,815
Total income and expense for the year *(unaudited)*	**–**	**–**	**–**	**9,121**	**(84)**	**9,037**	**(199)**	**8,838**
Issuance of share capital (Note 18) *(unaudited)*	1,625	9,465	–	–	–	11,090	–	11,090
Acquisition of additional interest in existing subsidiaries by minority shareholders *(unaudited)*	–	–	–	–	–	–	380	380
Acquisition of minority interests in existing subsidiaries *(unaudited)*	–	–	–	(405)	–	(405)	(380)	(785)
Sale of treasury shares by subsidiary *(unaudited)*	–	–	73	–	–	73	–	73
September 30, 2005 *(unaudited)*	**12,898**	**22,841**	**–**	**32,627**	**5,408**	**73,774**	**1,282**	**75,056**

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

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2006

(Thousands of Georgian Lari)

	Notes	For the nine months ended September 30 2006 (unaudited)	2005 (unaudited)
Cash flows from operating activities			
Interest received		61,236	35,442
Interest paid		(22,480)	(11,583)
Fees and commissions received		19,783	11,720
Fees and commissions paid		(3,885)	(2,269)
Recoveries of assets previously written-off		666	1,162
Insurance premiums received		4,836	3,486
Insurance claims paid		(1,174)	(81)
Realized gains less losses from dealing in foreign currencies		8,195	4,624
Other operating income received		2,404	642
Salaries and benefits paid		(16,380)	(16,576)
Administrative and other operating expenses		(11,487)	(7,727)
Cash flows from operating activities before changes in operating assets and liabilities		**41,714**	**18,840**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(19,555)	(9,171)
Loans to customers		(263,986)	(100,718)
Net investment in lease		(4,739)	(3,132)
Other assets		(12,426)	(6,539)
Net increase /(decrease) in operating liabilities			
Amounts owed to credit institutions		139,048	18,719
Amounts owed to customers		157,956	22,600
Other liabilities		(9,496)	8,557
Net cash flows from / (used in) operating activities before income tax		**28,516**	**(50,844)**
Income tax paid		(204)	(79)
Net cash (used in)/from operating activities		**28,312**	**(50,923)**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	9,630	(159)
Proceeds from sale of investment securities		5,291	3,583
Sale (purchase) of investments in associates		571	588
Purchase of property and intangible assets	10, 11	(13,012)	(5,406)
Net cash (used in)/ from investing activities		**2,480**	**(1,394)**
Cash flows from financing activities			
Proceeds from issue of share capital		30,297	10,639
Purchase (sale) of treasury shares		(1,561)	146
Purchase of additional interest in existing subsidiaries, net of cash acquired		–	295
Proceeds from debt securities issued		(15)	288
Dividends paid to shareholders of the Bank		(568)	(2)
Net cash from financing activities		**28,153**	**11,366**
Effect of exchange rates changes on cash and cash equivalents		302	(41)
Net increase/(decrease) in cash and cash equivalents		**59,247**	**(40,992)**
Cash and cash equivalents, beginning of the period		**57,236**	**102,747**
Cash and cash equivalents, ending of the period	5	**116,483**	**61,755**

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

(Thousands of Georgian Lari)

1. Principal activities

Bank of Georgia (the "Bank") is a joint stock company, formed on the basis of the former State Bank Binsotsbanki on October 21, 1994, under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG") on December 15, 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Cyprus and Ukraine, whose activity includes providing leasing, insurance and brokerage services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad and exchanges currencies. Its main office is in Tbilisi and it has 71 operating outlets in all major cities of Georgia. The Bank's registered legal address is Pushkin Street 3, Tbilisi 0105, Georgia.

As of September 30, 2006 the following shareholders owned more than 5% of the outstanding shares of the Bank. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	***September 30, 2006, % (unaudited)***	***December 31, 2005, %***
Bank Austria Creditanstalt	25%	10%
Firebird Avrora Fund	9%	9%
Firebird Republics Fund	9%	9%
Victor Gelovani	8%	12%
East Capital Holding	5%	6%
East Capital Bering Fund	5%	5%
Kontsentra ltd	3%	5%
East Capital Financial Institutions AB II	3%	–
Firebird Global Master Fund	4%	4%
EBRD	–	12%
Other	29%	28%
Total	**100%**	**100%**

2. Basis of preparation

General

These unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with International Financial Reporting Standards ("IFRS"). These unaudited interim consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale securities and revaluation of property.

These unaudited interim consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries

The unaudited interim consolidated financial statements include the following subsidiaries:

September 30, 2006

Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Insurance Company BCI	100.0%	Georgia	11/08/2001	Insurance	30/12/2004
JSC Galt & Taggart Securities	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	100.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC Insurance Company Europace	100.0%	Georgia	26/07/2004	Insurance (non life)	18/10/2005
JSC Galt & Taggart Capital	100.0%	Georgia	24/05/2006	Investment company	–
JSC SB Outdoor and Indoor	100.0%	Georgia	09/06/2006	Investment company	–
Brokerage Company Hedji LLC	100.0%	Georgia	22/05/2002	Brokerage	17/04/2006
Tavazi LLC	100.0%	Georgia	31/03/2001	Brokerage	20/04/2006
JSC Georgian Card	55.4%	Georgia	25/11/1996	Card processing	20/10/2004
Intertour LLC	87.5%	Georgia	29/03/1996	Travel agency	25/03/2006
Georgian-American Medical Rehabilitation Center Nautilus LLC	100.0%	Georgia	25/03/2004	Fitness centre	25/04/2006
JSC SB Registrar	100.0%	Georgia	29/05/2006	Registrar	–
Metro Service + LLC	100.0%	Georgia	10/05/2006	Business servicing	–
Direct Debit Georgia LLC	100.0%	Georgia	22/02/2006	E-commerce	–
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	–
JSC Prime Fitness	100.0%	Georgia	03/07/2006	Fitness centre	–
JSC SB Real Estate	100.0%	Georgia	27/09/2006	Real estate	–
Holiday Travel LLC	100.0%	Georgia	11/02/2005	Tourist agency	26/09/2006
ICT Delameni LLC	100.0%	Georgia	30/03/1999	Registrar	14/09/2006
Company Center LLC	100.0%	Georgia	21/10/1996	Registrar	14/08/2006
Galt and Taggart Holding Limited	100.0%	Cyprus	03/07/2006	Brokerage	–

December 31, 2005

Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC Insurance Company Europace	100.0%	Georgia	26/07/2004	Insurance (non life)	18/10/2005
JSC Georgian Card	55.4%	Georgia	25/11/1996	Card processing	20/10/2004
JSC Galt & Taggart Securities	100.0%	Georgia	19/12/1995	Brokerage and asset management	28/12/2004
Georgian Leasing Company LLC	75.0%	Georgia	29/10/2001	Leasing	31/12/2004
JSC Insurance Company BCI	100.0%	Georgia	11/08/2001	Insurance	30/12/2004
JSC My Family Clinic	60.0%	Georgia	3/10/2005	Healthcare	-

During the nine months ended September 30, 2006, the Group increased its ownership in Georgian Leasing Company LLC to 100% and acquired seven new subsidiaries, specifically – Georgian-American Medical Rehabilitation Center Nautilus LLC, Intertour LLC, Brokerage Company Hedji LLC, Tavazi LLC, Company Center LLC, ICT Delameni LLC and Holiday Travel LLC (refer to Note 22 on Business combinations). In addition, during the period from December 31, 2005 through September 30, 2006 the Group has acquired net assets of JSC intellect Bank and incorporated the following eight new legal entities for different business purposes: JSC SB Registrar, Metro Service + LLC, JSC SB Energy (reorganized into JSC SB Outdoor and Indoor on July 27, 2006), Direct Debit Georgia LLC, JSC Galt & Taggart Capital, JSC Prime Fitness, Galt and Taggart Holdings Limited (Cyprus), JSC SB Real Estate.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Changes in accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") – Amendment for financial guarantee contracts – which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended financial guarantee contracts are recognized initially at fair value and generally re-measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with IAS 18, Revenue;
- IAS 39 – Amendment for hedges of forecast intragroup transactions – which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other that the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- IAS 39 – Amendment for the fair value option – which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

The adoption of these amendments did not affect the Group results of operations or financial position.

IFRSs and IFRIC interpretations not yet effective

The Group 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:

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

3. Significant accounting policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred and where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the consolidated statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Investments in associates

Associates are entities in which the Group has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in the consolidated statement of income, and its share of movements in reserves is recognized in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 Group 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 Group 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 consolidated statement of income.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group 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.

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 consolidated statement of income. However, interest calculated using the effective interest method is recognized in the consolidated statement of income. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

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 consolidated 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, amounts due from the National Bank of Georgia ("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.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers or in available-for-sale securities, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Borrowings

Borrowings, which include amounts due to NBG and state entities, amounts due to credit institutions, debt securities issued, 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 the consolidated statement of income when the liabilities are de-recognized as well as through the amortization process.

Leases

Finance - Group as lessor
The Group recognizes lease receivables at a value equal to the net investment in lease, starting from the date of commencement of the lease term. The net investment in a lease is calculated as the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Operating - Group 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 - Group as lessor
The Group 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 consolidated 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 Group assesses at each balance sheet date whether a financial asset or group 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 consolidated statement of income.

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 Group 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 group of financial assets with similar credit risk characteristics and that group 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 consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Allowances for impairment of financial assets (continued)

Assets carried at amortized cost (continued)
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 consolidated 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 consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated 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 group of similar financial assets) is de-recognized where:

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 de-recognized 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

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 Group'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.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the consolidated balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income, in which case the increase is recognized in the consolidated statement of income. A revaluation deficit is recognized in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Property and equipment (continued)

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:

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

Leasehold improvements are amortized over the life of the related leased asset. The assets 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.

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

The Group's other intangible assets comprise computer software. Computer software is recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

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 or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 10 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)

3. Significant accounting policies (continued)

Other intangible assets (continued)

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognized as an expense as incurred.

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 amount of obligation can be made.

Insurance liabilities

General insurance liabilities
General contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, environmental and pollution exposures, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date.

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test
At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Retirement and other employee benefit obligations

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

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions
The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in equity, over the period in which the performance /and or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Expense is recognized for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, as the minimum an expense is recognized as if the terms had not been modified. In addition an expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Segment reporting

The Group's operations are highly integrated and primarily constitute a single industry segment, retail and commercial banking that accounts for more than 93% of the Group's business. Despite the fact that Group provides commercial and investments banking and insurance services to its commercial and retail customers these activities only constitute a minor portion of the Group's operations. Accordingly for the purposes of IAS 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in Georgia, and the majority of the Group's revenues and net income is derived from operations in, and connected with, Georgia. As a consequence, no segment reporting disclosure is prepared.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium.

Treasury shares

Where the Group or its subsidiaries purchases the Group's shares, the consideration paid including any attributable transaction costs net of income taxes is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against share premium.

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.

(Thousands of Georgian Lari)

3. Significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements 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 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. Management advisory and service fees are recorded based on the applicable service contracts.

Premium income
For non-life business, premiums written are recognized at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the balance sheet date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Claims
General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as gains less losses from foreign currencies (translation differences).

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at September 30, 2006 and December 31, 2005 were 1.736 Lari and 1.793 Lari to 1 USD, respectively.

4. Significant accounting judgments and uncertainties

Judgments

The process of applying the Group's accounting policies requires management to make judgments, apart from those involving estimations, which could have a significant effect on the amounts recognized in the consolidated financial statements. The most significant judgments are discussed below.

- The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group 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 Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Georgian Lari)

4. Significant accounting judgments and uncertainties (continued)

Judgments (continued)

- impairment of long-lived assets. Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Estimation uncertainty

The preparation of financial statements requires the Group 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. The most significant estimates are discussed below.

Contingent liabilities
The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of September 30, 2006, the Group did not record any contingent liabilities.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of September 30, 2006 was GEL 23,935 (December 31, 2005 - GEL 5,730). More details are provided in Note 11.

Impairment of investments
The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	September 30, 2006 (unaudited)	***December 31, 2005***
Cash on hand	39,730	24,908
Current and time deposit with the National Bank of Georgia	8,679	4,273
Current accounts with other credit institutions	6,566	4,475
Time deposits with credit institutions with effective maturity up to 90 days	61,508	23,580
Cash and cash equivalents	**116,483**	**57,236**

As of September 30, 2006, GEL 9,979 (December 31, 2005 – GEL 9,808) was placed on current and time deposit accounts with internationally recognized and OECD banks that are the counter parties of the Group in performing international settlements.

During 2005, the Group placed with and received short-term funds in various currencies from Georgian banks as well as banks located in Commonwealth of Independent States ("CIS"). As of September 30, 2006, the Group had an equivalent of GEL 18,280 (December 31, 2005 – nil) in US Dollars placed as time deposits with Georgian banks.

(Thousands of Georgian Lari)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Obligatory reserve with the National Bank of Georgia	48,880	28,977
Time deposits with effective maturity of more than 90 days	1,781	2,099
Inter-bank loans receivable	5,531	2,368
	56,192	**33,444**
Less – Allowances for impairment (Note 13)	–	(46)
Amounts due from credit institutions	**56,192**	**33,398**

Obligatory reserve with NBG represents amounts deposited with NBG relating to daily settlements and other activities. Credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw this deposit is restricted by the statutory legislature.

As of September 30, 2006, time deposits and inter-bank loans include GEL 1,000 (December 31, 2005 – 3,468) placed with JSC ProCredit Bank.

7. Loans to customers

Loans have been extended to the following types of customers:

	September 30, 2006 (unaudited)	*December 31, 2005*
Private entities	357,200	174,492
Individuals	196,985	114,427
State entities	27,498	25,397
Loans to customers	**581,683**	**314,316**

As of September 30, 2006, concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 88,152 accounting for 15% of gross loan portfolio of the Group (December 31, 2005 – GEL 51,197 or 16%). An allowance of GEL 5,889 (December 31, 2005 – GEL 3,091) was created against these loans.

As of September 30, 2006 and December 31, 2005 loans are principally issued within Georgia, and their distribution by industry sectors is as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Trade and services	241,145	144,489
Individuals	203,857	114,427
Construction	61,464	12,668
Transport and communication	10,916	13,646
Mining	2,274	3,667
Agriculture	14,072	1,055
Energy	9,510	208
Other	38,445	24,156
	581,683	**314,316**
Less – Allowance for loan impairment (Note 13)	(21,280)	(16,940)
Loans to customers, net	**560,403**	**297,376**

(Thousands of Georgian Lari)

8. Net investment in lease

Net investment in lease comprised the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Minimum lease payments receivable	11,480	5,825
Less - Unearned finance lease income	(2,427)	(1,435)
	9,053	**4,390**
Less - Allowance for impairment	–	(76)
Net investment in lease	**9,053**	**4,314**

As of September 30, 2006, concentration of investments in five largest lessees comprised GEL 6,906 or 76 % of total net investment in lease (December 31, 2005 – GEL 2,980 or 69%) and finance income received from them as of September 30, 2006 comprised GEL 469 or 51% of total finance income from lease. (December 31, 2005 – GEL 137 or 55%).

Future minimum lease payments to be received during the five years after September 30, 2006 and December 31, 2005, are disclosed below:

	September 30, 2006 (unaudited)	*December 31, 2005*
Within 1 year	274	177
From 1 to 5 years	10,028	5,326
More than 5 years	1,178	322
Minimum lease payments receivable	**11,480**	**5,825**

The difference between the minimum lease payments to be received in the future and the net investment in leases represents unearned finance income. The effective interest rate on the lease portfolio is 16% per annum. Minimum lease payments to be received after September 30, 2006 and December 31, 2005 are payable to the Group in the following currencies:

	September 30, 2006 (unaudited)	*December 31, 2005*
US Dollars	5,575	5,380
Euros	5,905	445
Minimum lease payments receivable	**11,480**	**5,825**

9. Investment securities

Available-for-sale securities comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Corporate bonds	1,343	–
Corporate shares	4,818	508
Ministry of Finance Treasury Bills	–	7,819
Available-for-sale securities	**6,161**	**8,327**

As of September 30, 2006, investments in available-for-sale corporate shares include Group's GEL 4,019 investments in two financial institutions in Georgia and in Ukraine.

(Thousands of Georgian Lari)

9. Investment securities (continued)

Nominal interest rates and maturities of these securities are as follows:

	September 30, 2006 (unaudited)		*December 31, 2005*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	14%	2006	–	–
Ministry of Finance Treasury Bills	–	–	12.85%	2006

Held-to-maturity securities comprise:

	September 30, 2006 (unaudited)		*December 31, 2005*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	253	281	2,168	2,281
Ministry of Finance Treasury Bills	–	–	112	114
Held-to-maturity securities	**253**	**281**	**2,280**	**2,395**

Nominal interest rates and maturities of these securities are as follows:

	September 30, 2006 (unaudited)		*December 31, 2005*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	14%	2006	14.00%	2006
Ministry of Finance Treasury Bills	–	–	13.60%	2006

10. Property and equipment

Movements in property and equipment during the nine months ended September 30, 2006 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
December 31, 2005	**22,262**	**11,354**	**8,636**	**1,323**	**1,314**	**369**	**45,258**
Acquisition through business combinations (Note 22) *(unaudited)*	4,710	1,001	778	132	236	–	6,857
Additions *(unaudited)*	4,951	1,683	2,832	54	101	3,496	13,117
Disposals *(unaudited)*	(62)	(107)	(1,895)	(248)	(154)	(16)	(2,482)
Transfers *(unaudited)*	1,016	–	–	–	198	(1,214)	–
September 30, 2006 *(unaudited)*	**32,877**	**13,931**	**10,351**	**1,261**	**1,695**	**2,635**	**62,750**
Accumulated impairment							
September 30, 2006 and December 31, 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2005	**719**	**3,054**	**4,087**	**776**	**340**	**–**	**8,976**
Charge for the period *(unaudited)*	413	944	1,332	172	215	–	3,076
Disposals *(unaudited)*	(6)	(96)	(1,896)	(243)	(155)	–	(2,396)
September 30, 2006 *(unaudited)*	**1,126**	**3,902**	**3,523**	**705**	**400**	**–**	**9,656**
Net book value							
December 31, 2005	**21,076**	**8,300**	**4,549**	**547**	**974**	**369**	**35,815**
September 30, 2006 *(unaudited)*	**31,284**	**10,029**	**6,828**	**556**	**1,295**	**2,635**	**52,627**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

Movements in property and equipment during nine months ended September 30, 2005 were as follows:

	Buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
December 31, 2004	**17,456**	**8,025**	**5,911**	**1,249**	**998**	**–**	**33,639**
Additions *(unaudited)*	1,166	1,576	1,029	13	82	1,146	5,012
Disposals *(unaudited)*	(193)	(6)	(22)	(73)	(15)	(6)	(315)
Transfers *(unaudited)*	315	(176)	58	106	(102)	(201)	–
September 30, 2005 *(unaudited)*	**18,744**	**9,419**	**6,976**	**1,295**	**963**	**939**	**38,336**
Accumulated impairment							
December 31, 2004 and September 30, 2005	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Accumulated depreciation							
December 31, 2004	**320**	**2,197**	**2,715**	**575**	**206**	**–**	**6,013**
Charge for the period *(unaudited)*	277	638	1,084	175	102	–	2,276
Disposals *(unaudited)*	(6)	(2)	(14)	(33)	(15)	–	(70)
Transfers *(unaudited)*	–	(36)	–	–	–	–	(36)
September 30, 2005 *(unaudited)*	**591**	**2,797**	**3,785**	**717**	**293**	**–**	**8,183**
Net book value							
December 31, 2004	**16,669**	**5,828**	**3,196**	**674**	**792**	**–**	**27,159**
September 30, 2005 *(unaudited)*	**17,686**	**6,622**	**3,191**	**578**	**670**	**939**	**29,686**

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was December 31, 2003. If the buildings were measured using the cost model, the carrying amounts as of September 30, 2006 and December 31, 2005 would be as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Cost	27,323	16,610
Accumulated depreciation and impairment	(1,324)	(903)
Net carrying amount	**25,999**	**15,707**

(Thousands of Georgian Lari)

11. Intangible assets

Movements in intangible assets during nine months ended September 30, 2006 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2005	**5,730**	**4,144**	**9,874**
Acquisition through business combinations (Note 22) *(unaudited)*	18,205	192	18,397
Additions *(unaudited)*	–	209	209
Disposals *(unaudited)*	–	–	–
September 30, 2006 *(unaudited)*	**23,935**	**4,545**	**28,480**
Accumulated amortization			
December 31, 2005	–	**2,189**	**2,189**
Charge for amortization *(unaudited)*	–	740	740
Disposals *(unaudited)*	–	–	–
September 30, 2006*(unaudited)*	**–**	**2,929**	**2,929**
Net book value:			
December 31, 2005	**5,730**	**1,955**	**7,685**
September 30, 2006 *(unaudited)*	**23,935**	**1,616**	**25,551**

Movements in intangible assets during nine months ended September 30, 2005 were as follows:

	Goodwill	*Computer software*	*Total*
Cost			
December 31, 2004	**4,389**	**3,461**	**7,850**
Acquisition through business combinations *(unaudited)*	82	–	82
Additions *(unaudited)*	–	402	402
Disposals *(unaudited)*	–	–	–
September 30, 2005 *(unaudited)*	**4,471**	**3,863**	**8,334**
Impairment charge nine months ended September 30, 2005 *(unaudited)*	**237**	**11**	**248**
Accumulated amortization			
December 31, 2004	–	**1,565**	**1,565**
Charge for the period *(unaudited)*	–	611	611
Transfers *(unaudited)*	–	36	36
September 30, 2005 *(unaudited)*	**–**	**2,212**	**2,212**
Net book value			
December 31, 2004	**4,389**	**1,896**	**6,285**
September 30, 2005*(unaudited)*	**4,234**	**1,640**	**5,874**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

As of September 30, 2006 Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC "Bank of Georgia"
- JSC "Insurance Company BCI"
- "Georgian-American Medical Rehabilitation Center Nautilus" LLC
- "Intertour" LLC

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flow will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units:

		Carrying amount of goodwill	
	WACC applied for impairment	***September 30, 2006 (unaudited)***	***December 31, 2005***
JSC Bank of Georgia	11%	19,418	1,892
JSC British Caucasus Insurance Company	17%	2,341	2,341
JSC Insurance Company Europace	22%	1,497	1,497
Georgian-American Medical Rehabilitation Center Nautilus LLC	25%	89	–
Intertour LLC	23%	275	–
Total		**23,620**	**5,730**

Carrying amount of goodwill for Brokerage Company Hedji LLC, Company Center, ICT Delameni LLC and Holiday Travel LLC totaling 315 GEL has not been tested for impairment by the Group as of September 30, 2006.

12. Taxation

Corporate income tax expense comprises:

	September 30, 2006 (unaudited)	***September 30, 2005 (unaudited)***
Current tax charge	3,714	1,740
Deferred tax charge	948	1,355
Income tax expense	**4,662**	**3,095**

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2006 and 2005. The tax rate for companies other than banks was also 20% for 2006 and 2005. The tax rate for interest income on state securities was 10%.

(Thousands of Georgian Lari)

12. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. As of September 30 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	September 30, 2006 (unaudited)	*September 30, 2005 (unaudited)*
Income before taxation	**21,963**	**11,910**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4,393**	**2,382**
State securities at lower tax rate	(23)	(67)
Non-taxable revenues	(53)	(1)
Non-tax-deductible expenses:		
- representative	38	–
- other impairment losses	19	–
- charity	70	74
- fines	10	9
- other	208	698
Income tax expense	**4,662**	**3,095**

Georgia currently has a number of laws related to various taxes imposed by state authorities. Applicable taxes include value added tax, corporate income tax (profits 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, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group 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 comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Tax effect of deductible temporary differences:		
Tax loss carried forward	–	446
Intangible assets	–	119
Allowances for impairment and provisions for other losses	–	59
Property and equipment	–	30
Net investment in lease	–	12
Amounts owned to credit institutions	180	–
Total tax effect of deductible temporary differences	**180**	**666**
Unrecognized deferred tax assets	–	(63)
Deferred tax asset	**180**	**603**
Tax effect of taxable temporary differences:		
Property and equipment accumulated depreciation	1,889	1,638
Loans to customers	1,161	665
Available for sale securities	11	–
Allowances for impairment and provisions for other losses	116	124
Other liabilities	226	185
Other assets	–	78
Deferred tax liability	**3,403**	**2,690**
Net deferred tax liability	**3,223**	**2,087**

(Thousands of Georgian Lari)

12. Taxation (continued)

All tax losses carried forward were exhausted in 2005. As of September 30, 2006 the Group did not have any tax losses carried forward.

Tax assets and liabilities consist of the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Current tax asset	–	2,570
Tax assets	**–**	**2,570**
Current tax liability	658	–
Deferred tax liability	3,223	2,087
Tax liabilities	**3,881**	**2,087**

13. Allowances for impairment and provisions

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

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2005	**46**	**16,940**	**16,986**
Charge (reversal) *(unaudited)*	(46)	11,413	11,367
Write-offs *(unaudited)*	–	(6,371)	(6,371)
Recoveries *(unaudited)*	–	(702)	(702)
September 30, 2006 *(unaudited)*	**–**	**21,280**	**21,280**

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2004	**47**	**19,081**	**19,128**
Charge (reversal) *(unaudited)*	(47)	6,819	6,772
Write-offs *(unaudited)*	–	(9,206)	(9,206)
Recoveries *(unaudited)*	–	(1,170)	(1,170)
September 30, 2005 (*unaudited*)	**–**	**15,524**	**15,524**

Movements in allowances for other assets and provisions were as follows:

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2005	**280**	**919**	**975**	**2,174**
Charge (reversal) *(unaudited)*	(51)	322	(975)	(704)
Write-offs *(unaudited)*	–	(301)	–	(301)
Recoveries *(unaudited)*	–	(36)	–	(36)
September 30, 2006 *(unaudited)*	**229**	**904**	**–**	**1,133**

	Investments in associates	*Other assets*	*Guarantees and commitments*	*Total*
December 31, 2004	**103**	**1,303**	**971**	**2,377**
Reversal *(unaudited)*	–	(400)	(640)	(1,040)
Write-offs *(unaudited)*	–	(87)	(331)	(418)
Recoveries *(unaudited)*	–	(9)	–	(9)
September 30, 2005 *(unaudited)*	**103**	**807**	**–**	**910**

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with the Georgian legislation, loans must be written off if, both, principal and interest are overdue for more than 150 days.

(Thousands of Georgian Lari)

14. Other assets and liabilities

Other assets comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Prepayment for purchase of fixed assets	11,744	1,064
Insurance premiums receivable	4,908	3,300
Receivable from money transfers	1,056	2,184
Foreclosed assets	2,362	2,474
Operating taxes receivable	861	613
Investment in associates	648	800
Lease receivable	3,394	504
Settlements on operations with securities	862	536
Other	2,082	838
	27,917	**12,313**
Less – Allowance for impairment of other assets (Note 13)	(1,133)	(1,199)
Other assets	**26,784**	**11,114**

Foreclosed assets represent assets repossessed from the borrowers of the Bank. These assets are not used for their intended purposes and are being held for short-term purposes with intent of sale.

Other liabilities comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Creditors	1,918	3,857
Accruals for employee compensation	5,457	4,967
Reinsurance accounts payable	2,506	1,680
Unearned premiums reserve	3,287	2,154
Amounts payable for acquisitions	841	841
Other taxes payable	1,244	555
Insurance claims reserves	766	545
Dividends payable	325	115
Fines and penalties payable	332	671
Other	6,754	693
Other liabilities	**23,430**	**16,078**

Other liabilities include accrued costs related to the anticipated issuance by the Bank of Global Depository Receipts in the amount of GEL 1,323. For more details refer to Note 27. In addition, other liabilities include 3,478 GEL advances received from clients for brokerage operations carried out by group.

15. Amounts owed to credit institutions

Amounts owed to credit institutions comprise:

	September 30, 2006 (unaudited)	*December 31, 2005*
Correspondent accounts	2,822	144
Time deposits and loans	91,262	37,007
Borrowings from international financial institutions	129,119	41,722
Amounts owed to credit institutions	**223,203**	**78,873**

(Thousands of Georgian Lari)

15. Amounts owed to credit institutions (continued)

During nine months of 2006, the Group received short-term funds from Georgian banks in different currencies. As of September 30, 2006, the Group had an equivalent of GEL 34,140 (December 31, 2005 – nil) in US Dollars received as deposits from Georgian banks.

During the nine months of 2006, the Group has obtained an 18-month facility from Citibank N.A. in amount of USD 25,000 (GEL 43,400), 10 year facility from World Business Capital (WBC) in amount of USD 10,000 (GEL 17,360), 10 year subordinated loan from Hillside Apex Fund Limited, a fund managed by Thames River Capital, in the amount of USD 5,000 (GEL 8,680), one year unsecured loan facility from Merrill Lynch International in the amount of USD 25,000 (GEL 43,400) and 10 year convertible subordinated loan facility from a fund advised by HBK Investments L.P. in the amount of USD 25,000 (GEL 43,400). The loans were granted on market terms.

As of September 30, 2006 and December 31, 2005, borrowings from international financial institutions included borrowings from Deutsche Investitions und Enktwicklungsgesellshaft mbH (DEG), International Finance Corporation (IFC), European Bank of Reconstruction and Development (EBRD), Black Sea Trade & Development Bank (BSTDB), and AKA Ausfuhrkredit-Gesellschaft mbH. All these loans bear floating interest rates tied either to LIBOR or EURIBOR, ranging from LIBOR plus 2% to LIBOR plus 5.25% (December 31, 2005 – 2% to 5.25%), for USD borrowings and, from EURIBOR plus 4.25% to EURIBOR plus 4.5% (December 31, 2005 – 4.25% to 6%), for EURO borrowings. Contractual maturities of these facilities range from 5 to 10 years (December 31, 2005 – 5 to 10 years) while expected maturities range from 2 to 5 years (December 31, 2005 – 2 to 6 years).

16. Amounts owed to customers

Amounts owed to customers include the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Current accounts	245,035	137,296
Time deposits	222,958	132,656
Amounts owed to customers	**467,993**	**269,952**
Held as security against letters of credit	**4,456**	**652**
Held as security against guarantees	**1,820**	**1,422**

As of September 30, 2006, amounts owed to customers of GEL 95,859 (20 %) were due to ten largest third party customers (December 31, 2005 - GEL 35,577 (13%)).

Amounts owed to customers comprise the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Individuals	193,714	156,373
Private enterprises	206,763	86,123
State and budget organizations	67,516	27,456
Amounts owed to customers	**467,993**	**269,952**

(Thousands of Georgian Lari)

16. Amounts owed to customers (continued)

The following represents the breakdown of customer accounts by industry sector is as follows:

	September 30, 2006 (unaudited)	*December 31, 2005*
Individuals	211,482	156,373
Trade and services	62,759	38,262
Transport and communication	13,427	17,396
Mining	7,150	6,974
Construction	18,490	8,018
Governmental	73,229	1,997
Energy	1,555	14,044
Agriculture	568	343
Other	79,333	26,545
Amounts owed to customers	**467,993**	**269,952**

17. Debt securities issued

Debt securities issued consisted of the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Promissory notes issued	1,128	1,143
Debt securities issued	**1,128**	**1,143**

Interest-bearing callable notes that were issued by the Group as of September 30, 2006 had an aggregate nominal value of GEL 1,128 and mature in September 2007. (December 31, 2005 – GEL 1,143, September 2007) Original term of the bonds is 2 years (callable in 1 year) and the applicable interest rate is 11% per annum.

18. Equity

As of September 30, 2006, authorized share capital comprised 19,783,409 common shares, of which 16,737,714 were issued and fully paid (December 31, 2005 – 19,783,409 common shares, of which 14,728,784 were issued and fully paid, September 30, 2005 – 14,783,409 common shares, of which 12,898,214 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari.

Movements for the nine month ended September 30, 2006 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2005	**14,728,784**	**14,729**
Issuance of shares *(unaudited)*	2,008,930	2,009
September 30, 2006 *(unaudited)*	**16,737,714**	**16,738**

Movements for the nine month ended September 30, 2005 in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Amount of shares*
	Ordinary	*Ordinary*
December 31, 2004	**11,273,386**	**11,273**
Issuance of shares *(unaudited)*	1,624,828	1,625
September 30, 2005 *(unaudited)*	**12,898,214**	**12,898**

(Thousands of Georgian Lari)

18. Equity (continued)

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For the nine months ended September 30, 2006, net income attributable to ordinary shareholders was GEL 17,301. As of September 30, 2006 weighted average number of ordinary shares outstanding during the period was 15,444,604. Thus, basic and diluted earnings per share amounted 1.12 Georgian Lari (2005 – GEL 8,815 and 13,646,795, respectively and EPS of 0.6 Georgian Lari).

On December 22, 2005 shareholders of the Bank approved an increase of share capital of an additional 5,000,000 ordinary shares. In March 2006, the Group issued 11,640 shares in exchange for 25% equity interest in an existing subsidiary Georgian Leasing Company LLC.

As of September 30, 2006, treasury shares of 120 GEL at par value and share premium of 1,441 GEL comprise the Group's shares owned by its subsidiary, Galt & Taggart Securities, purchased in the open market. (2005 – treasury shares of GEL 62 at par and share premium of GEL 180).

During the nine month ended September 30, 2006, 8,333 ordinary shares of GEL 8 at par value and share premium of GEL 19 has been granted as compensation to top management. During nine months ended September 30, 2005 144,000 ordinary shares of GEL 144 at par value and share premium of GEL 331 were granted as compensation to top management.

In April 2006, the Group declared dividends of GEL 775 in respect of 2005 being GEL 0.00005 per share (nil in 2005).

Movements for the nine month ended September 30, 2006 in other reserves were as follows:

	Revaluation reserve for property and equipment	***Total***
As of December 31, 2005	**5,369**	**5,369**
Depreciation of revaluation reserve, net of tax *(unaudited)*	(84)	(84)
As of September 30, 2006 *(unaudited)*	**5,285**	**5,285**

Movements for the nine month ended September 30, 2005 in other reserves were as follows:

	Revaluation reserve for property and equipment	***Total***
As of December 31, 2004	**5,492**	**5,492**
Depreciation of revaluation reserve, net of tax *(unaudited)*	(84)	(84)
As of September 30, 2005 *(unaudited)*	**5,408**	**5,408**

Nature and purpose of other reserves

Revaluation reserve for property and equipment
The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

(Thousands of Georgian Lari)

19. Commitments and contingencies

Relationships with Russia

In spring of 2006, Russia instituted a ban on import of certain agricultural products from Georgia. In the second half of 2006, as the result of the worsening relationships with Georgia, Russia has imposed strict commercial and political sanctions against Georgia. Due to important role that Russia plays for the Georgian economy, further deterioration of the relationships between the two countries may have material adverse effect on the economy of Georgia.

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, onerous currency controls and low liquidity levels for debt and equity markets.

The Group 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 Group's assets, and the ability of the Group 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 Group's financial statements in the period when they become known and estimable.

Legal

In the ordinary course of business, the Group 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 Group.

Financial commitments and contingencies

As of September 30, 2006 and December 31, 2005 the Group's financial commitments and contingencies comprised the following:

	September 30, 2006 (unaudited)	*December 31, 2005*
Credit related commitments		
Undrawn loan commitments	26,734	15,751
Letters of credit	24,681	20,888
Guarantees	66,134	34,777
	117,549	**71,416**
Operating lease commitments		
Not later than 1 year	1,670	1,238
Later than 1 year but not later than 5 years	5,937	3,323
Later than 5 years	1,158	1,052
	8,765	**5,613**
Capital expenditure commitments	**368**	**216**
Less – Provisions	–	(975)
Less – Cash held as security against letters of credit and guarantees	(1,280)	(538)
Financial commitments and contingencies	**125,402**	**75,732**

(Thousands of Georgian Lari)

20. Net fees and commission income

During the nine month ended September 30 net fees and commission income comprises:

	For nine months ended September 30	
	2006 (unaudited)	***2005 (unaudited)***
Settlements operations	10,342	6,246
Guarantees and letters of credit	3,618	2,007
Cash collection	2,998	1,987
Brokerage service fees	1	69
Currency conversion operations	588	552
Advisory	187	26
Other	2,049	833
Fees and commission income	**19,783**	**11,720**
Settlements operations	1,576	1,215
Guarantees and letters of credit	803	510
Cash collection	88	–
Cash operations	37	195
Currency conversion operations	–	45
Advisory	1,024	235
Other	357	68
Fees and commission expense	**3,885**	**2,268**
Net fees and commission income	**15,898**	**9,452**

21. Salaries and administrative expenses

During the nine month ended September 30 salaries and other employee benefits, as well as administrative expenses comprise:

	For nine months ended September 30	
	2006 (unaudited)	***2005 (unaudited)***
Salaries and bonuses	18,826	14,339
Social security costs	3,029	2,237
Salaries and other employee benefits	**21,855**	**16,576**
Occupancy and rent	1,894	1,273
Security	1,162	876
Marketing and advertising	1,355	749
Communications	1,102	616
Operating taxes	511	684
Legal and other professional services	276	180
Office supplies	1,422	549
Repair and maintenance	889	481
Personnel training and recruitment	236	130
Travel expenses	600	221
Corporate hospitality and entertainment	227	139
Banking services	332	151
Insurance	648	366
Penalties incurred	49	16
Other	2,601	1,296
Administrative expenses	**13,304**	**7,727**

(Thousands of Georgian Lari)

22. Business combination

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations occurred during the nine months ended September 30, 2006 (i.e. Intellect Bank, Intertour LLC and Georgian-American Medical Rehabilitation Center Nautilus LLC) in aggregate as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	***Carrying value***
Cash and cash equivalents	10,373	10,373
Due from credit institutions	3,246	3,246
Deposits with banks	59	59
Investment securities:		
– held-to-maturity	–	–
– available-for-sale	33	33
Investments in associates	1,238	1,238
Loans to customers	8,644	8,644
Other debtors and receivable	2,119	2,119
Property and equipment (Note 10) *(unaudited)*	6,857	5,303
Intangible assets (Note 11) *(unaudited)*	191	191
Capitalization of the gain on initial recognition of the facility received	1,960	–
Other assets	1,659	1,706
	36,379	**32,912**
Amounts owed to credit institutions	7,620	7,620
Amounts owed to customers	37,419	37,419
Accounts payable	2,182	2,182
Advances received	590	590
Loans	3,622	3,622
Tax liabilities	265	265
Other liabilities	2,063	2,063
	53,761	**53,761**
Fair value of net assets	**(17,382)**	**(20,849)**
Minority interest *(unaudited)*	(6)	–
Goodwill arising on acquisition (Note 11) *(unaudited)*	17,707	–
Consideration paid *(unaudited)*	**319**	**–**

The net cash outflow on acquisitions was as follows:

	2006 (unaudited)
Cash paid	(319)
Cash acquired with the subsidiary	10,373
Net cash inflow	**10,054**

If the combinations had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 17,425 and the total revenue would have been GEL 123,305. The profit of the acquired subsidiary consolidated since the acquisition date was only from Intertour LLC and amounted of GEL 38 of income.

(Thousands of Georgian Lari)

22. Business combinations (continued)

JSC Intellect Bank

On February 20, 2006 the Group acquired all the assets and liabilities of JSC Intellect Bank (the "IB"), a banking institution. The sale was conducted by the temporary administrator of IB, the National Bank of Georgia (NBG). JSC Intellect Bank was placed in temporary administration as it was experiencing financial difficulties and liquidity problems. To avoid the possible bankruptcy of the IB, NBG conducted an auction sale of the IB. The Group was successful with the winning bid.

As part of the transaction NBG granted a two year facility to the Group in the amount of GEL 20,000 at substantially below market rates and granted a 12 month waiver for the breaches of prudential ratios resulting from the acquisition of the Bank.

The fair value of identifiable assets, liabilities and contingent liabilities of the IB as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	10,312	10,312
Due from credit institutions	3,246	3,246
Investment securities:		
– held-to-maturity	–	–
– available-for-sale	33	33
Investments in associates	1,238	1,238
Loans to customers	8,644	8,644
Property and equipment	2,843	2,214
Intangible assets	190	190
Capitalization of the gain on initial recognition of the facility received	1,960	–
Other assets	1,467	1,514
	29,933	**27,391**
Amounts owed to credit institutions	7,620	7,620
Amounts owed to customers	37,419	37,419
Tax liabilities	242	242
Other liabilities	1,995	1,995
	47,276	**47,276**
Fair value of net assets	**(17,343)**	**(19,885)**
Goodwill arising on acquisition	17,343	–
Consideration paid	**–**	**–**

The net cash outflow on acquisition was as follows:

	2006
Cash paid	–
Cash acquired with the subsidiary	10,312
Net cash inflow	**10,312**

If the combination had taken place at the beginning of the period, the net income (loss) of the Group would have been GEL 17,232 and the total revenue would have been GEL 46,051.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Intertour LLC

On April 25, 2006 the Group acquired a controlling interest (87.5%) in Intertour LLC - travel agency. The fair value of identifiable assets, liabilities and contingent liabilities of Intertour LLC as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	60	60
Deposits with Banks	58	58
Other debtors and receivable	2,033	2,033
Property and equipment	22	22
Intangible assets	1	1
Other assets	91	91
	2,265	**2,265**
Accounts payable	2,157	2,157
Tax liabilities	22	22
Other liabilities	37	37
	2,216	**2,216**
Fair value of net assets	**49**	**49**
Minority interest	(6)	–
Goodwill arising on acquisition	275	–
Consideration paid	**318**	**–**

The total cost of the combination was GEL 318 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2006
Cash paid	318
Less: cash acquired with the subsidiary	(60)
Net cash outflow	**258**

If the combination had taken place at the beginning of the period, the net income of the Group would have been GEL 17,352 and the total revenue would have been GEL 45,968. The profit of the acquired subsidiary was consolidated since the acquisition date and amounted of GEL 38 of income.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Georgian-American Medical Rehabilitation Center Nautilus LLC

On March 14, 2006 the Group obtained a controlling interest (100%) in Georgian-American Medical Rehabilitation Center Nautilus LLC (the "Company") – fitness centre. The Company had outstanding liabilities of GEL 4,212 to the Group and was not able to repay them. The Group was interested in the business of the company and decided to capitalize the loan into investment and obtained the control over the company. The fair value of identifiable assets, liabilities and contingent liabilities of "Georgian-American Medical Rehabilitation Center Nautilus" LLC as of the date of acquisition were provisionally estimated at:

	Recognized on acquisition	*Carrying value*
Cash and cash equivalents	1	1
Deposits with Banks	1	1
Other debtors and receivable	86	86
Property and equipment	3,992	3,067
Other assets	101	101
	4,181	**3,256**
Accounts payable	25	25
Advances received	590	590
Loans	3,622	3,622
Tax liabilities	1	1
Other liabilities	31	31
	4,269	**4,269**
Fair value of net assets	**(88)**	**(1,013)**
Goodwill arising on acquisition	89	–
Consideration paid	**1**	**–**

The total cost of the combination was GEL 1 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	2006
Cash paid	1
Less: cash acquired with the subsidiary	(1)
Net cash inflow	**–**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 17,305 and the total revenue would have been GEL 45,971.

Other combinations

During nine months ended September 30, 2006 Group acquired two small brokerage companies namely Heji LLC and Tavazi LLC, two register companies ICT Delameni LLC and Company Center LLC. In addition, during nine months ended September 30 2006 Group acquired travel agency Holiday Travel LLC. These companies were acquired by Insurance Company BCI, Georgian Leasing Company and Intertour LLC respectively.

Brokerage Company Hedji LLC (company) was acquired (100%) on April 17, 2006 by the Group for GEL 2.4. Fair value of the assets of the company estimated provisionally as of the acquisition date amounted to GEL 4 while liabilities to GEL 2. Company did not conduct any operations during the nine months of 2006. The provisional goodwill on acquisition amounted to GEL 0.4 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.4.

(Thousands of Georgian Lari)

22. Business combinations (continued)

Other combinations (continued)

Tavazi LLC was acquired (100%) on May 11, 2006 by the Group for GEL 2.7. Fair value of the assets of Tavazi LLC estimated provisionally as of the acquisition date amounted to GEL 12 (GEL 10 represents fixed assets) while liabilities to GEL 2. Tavazi LLC did not conduct any operations during the nine months of 2006. The provisional negative goodwill on acquisition amounted to GEL 7.3 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 2.1.

ICT Delameni LLC was acquired (100%) on August 22, 2006 by the Group for GEL 117. Fair value of the assets of ICT Delameni estimated provisionally as of the acquisition date amounted to GEL 63 while liabilities to GEL 5. Operations of ICT Delameni during nine months of 2006 were insignificant. The provisional goodwill on acquisition amounted to GEL 59 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 117.

Company Center LLC was acquired (100%) on August 9, 2006 by the Group for GEL 302. Fair value of the assets of Company Center LLC estimated provisionally as of the acquisition date amounted to GEL 90 while liabilities to GEL 1. Operations of Company Center LLC during nine months of 2006 were insignificant. The provisional goodwill on acquisition amounted to GEL 212 as of September 30, 2006 and the net cash outflow from acquisition amounted to GEL 302.

Holiday Travel LLC was acquired (100%) on September 4, 2006 by the Group for GEL 35. Fair value of the assets of Holiday Travel LLC estimated provisionally as of the acquisition date amounted to GEL 16 while liabilities to GEL 21. Holiday Travel LLC did not conduct any operations during the nine months of 2006. The provisional goodwill on acquisition amounted to GEL 40 as of September 30, 2006. Company did not incur any cash outflows from acquisition as of September 30, 2006.

23. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main financial risks inherent to the Group'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 Group's risk management policies in relation to these risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. 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 and product are approved monthly by the Board of Directors. Where appropriate, and in the case of most loans, the Group 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.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Geographical concentration

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

	September 30, 2006 (unaudited)				*December 31, 2005*			
	Georgia	*OECD*	*CIS and other foreign banks*	*Total*	*Georgia*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	63,127	52,921	435	116,483	46,787	9,291	1,158	57,236
Due from credit institutions	55,004	1,188	–	56,192	32,710	688	–	33,398
Loans to customers	560,403	–	–	560,403	297,376	–	–	297,376
Net investments in lease	9,053	–	–	9,053	4,314	–	–	4,314
Investment securities:								
- available-for-sale	6,161	–	–	6,161	8,327	–	–	8,327
- held-to-maturity	223	30	–	253	2,280	–	–	2,280
All other assets	106,035	2,086	48	108,169	57,102	171	366	57,639
	800,006	**56,225**	**483**	**856,714**	**448,896**	**10,150**	**1,524**	**460,570**
Liabilities:								
Owed to credit institutions	35,122	188,081	–	223,203	29,316	49,557	–	78,873
Owed to customers	467,993	–	–	467,993	269,952	–	–	269,952
Debt securities issued	1,128	–	–	1,128	1,143	–	–	1,143
All other liabilities	27,311	–	–	27,311	15,720	3,196	224	19,140
	531,554	**188,081**	**–**	**719,635**	**316,131**	**52,753**	**224**	**369,108**
Net balance sheet position	**268,452**	**(131,856)**	**483**	**137,079**	**132,765**	**(42,603)**	**1,300**	**91,462**

Market risk

The Group is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group 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.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset & Liability Management Committee (ALCO) 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 NBG. The Group's exposure to foreign currency exchange rate risk follows:

	September 30, 2006 (unaudited)				*December 31, 2005*			
	GEL	*Freely convertible*	*Non convertible*	*Total*	*GEL*	*Freely convertible*	*Non convertible*	*Total*
Assets:								
Cash and cash equivalents	37,017	78,508	958	116,483	24,086	31,671	1,479	57,236
Due from credit institutions	55,004	1,188	–	56,192	32,402	957	39	33,398
Loans to customers	169,883	390,520	–	560,403	85,189	212,187	–	297,376
Net investment in lease	–	9,053	–	9,053	–	4,314	–	4,314
Investment securities:								
- available-for-sale	5,961	200	–	6,161	8,327	–	–	8,327
- held-to-maturity	253	–	–	253	2,280	–	–	2,280
All other assets	103,344	4,825	–	108,169	52,472	5,083	84	57,639
	371,462	**484,294**	**958**	**856,714**	**204,756**	**254,212**	**1,602**	**460,570**
Liabilities:								
Owed to credit institutions	19,805	203,398	–	223,203	5,023	73,823	27	78,873
Owed to customers	163,395	304,598	–	467,993	76,495	193,416	41	269,952
Debt securities issued	1,128	–	–	1,128	1,143	–	–	1,143
All other liabilities	23,850	3,461	–	27,311	14,227	4,913	–	19,140
	208,178	**511,457**	**–**	**719,635**	**96,888**	**272,152**	**68**	**369,108**
Net balance sheet position	**163,284**	**(27,163)**	**958**	**137,079**	**107,868**	**(17,940)**	**1,534**	**91,462**

Freely convertible currencies represent mainly US Dollar amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Georgia.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk

The table below summarizes the Group's exposure to interest rate risk as at September 30, 2006 and December 31, 2005. Included in the table are the Group's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or expected maturity dates.

	September 30, 2006 (unaudited)						
	Non - interest bearing	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	58,101	50,379	8,003	–	–	–	116,483
Due from credit institutions		38,294	3,341	9,136	5,287	134	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	67,567	560,403
Net investment in lease	–	–	–	83	8,058	912	9,053
Investment securities:							–
- available-for-sale	616	92	1,361	12	3	4,077	6,161
- held-to-maturity	–	–	253	–	–	–	253
	58,717	**151,187**	**86,005**	**169,330**	**210,616**	**72,690**	**748,545**
Liabilities:							
Owed to credit institutions	420	10,323	5,764	87,307	41,836	77,553	223,203
Owed to customers	161,497	165,438	27,882	76,538	35,537	1,101	467,993
Debt securities issued	–	–	–	1,128	–	–	1,128
	161,917	**175,761**	**33,646**	**164,973**	**77,373**	**78,654**	**692,324**
Net position	**(103,200)**	**(24,574)**	**52,359**	**4,357**	**133,243**	**(5,964)**	**56,221**

	December 31, 2005						
	Non - interest bearing	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	57,236
Due from credit institutions	–	16,387	2,902	6,838	7,246	25	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	31,881	297,376
Net investment in lease	–	108	–	24	3,949	233	4,314
Investment securities:							
- available-for-sale	–	944	4,379	2,498	–	506	8,327
- held-to-maturity	–	–	111	2,169	–	–	2,280
	32,863	**78,243**	**40,022**	**87,184**	**131,974**	**32,645**	**402,931**
Liabilities:							
Owed to credit institutions	144	28,661	14,007	36,061	–	–	78,873
Owed to customers	32,669	120,001	25,773	35,889	55,391	229	269,952
Debt securities issued	–	–	–	–	1,143	–	1,143
	32,813	**148,662**	**39,780**	**71,950**	**56,534**	**229**	**349,968**
Net position	**50**	**(70,419)**	**242**	**15,234**	**75,440**	**32,416**	**52,963**

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Interest rate risk (continued)

As of September 30, 2006 and December 31, 2005 the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	September 30, 2006 (unaudited)		*December 31, 2005*	
	GEL	*Foreign currencies*	*GEL*	*Foreign currencies*
Due from credit institutions	4%	8%	8%	2%
Investment securities:				
- held-to-maturity	14%	–	14%	–
- Available-for-sale	14%	–	13%	–
Loans to customers	23%	16%	21%	15%
Owed to credit institutions	6%	7%	10%	7%
Owed to customers	7%	8%	10%	8%

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. This risk of liquidity is managed through the Asset & Liabilities Management Committee ("ALCO") approved liquidity framework. Group Treasury manages liquidity on a daily basis and submits monthly reports to ALCO. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The ALCO 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.

The liquidity risk management framework models the ability of the Group to fund under both normal conditions and during a crisis situation. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed annually to ensure it is appropriate to the Group's current and planned activities. The annual review encompasses the funding scenarios modeled, the modeling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Board of Directors.

Group Treasury also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Group's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the ALCO prior to approval by the Board of Directors.

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

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.

	September 30, 2006 (unaudited)							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	96,654	11,826	8,003	–	–	–	–	116,483
Due from credit institutions	27,918	12,149	3,003	8,107	4,900	115	–	56,192
Loans to customers	–	62,422	73,047	160,099	197,268	34,732	32,835	560,403
Net investment in lease	–	–	–	83	8,058	912	–	9,053
Investment securities:								
- available-for-sale	616	92	1,361	12	3	4,077	–	6,161
- held-to-maturity	–	–	253	–	–	–	–	253
	125,188	**86,489**	**85,667**	**168,301**	**210,229**	**39,836**	**32,835**	**748,545**
Liabilities:								
Owed to credit institutions	419	10,323	5,813	88,246	42,392	75,710	300	223,203
Owed to customers	272,316	54,618	27,882	76,539	35,537	1,101	–	467,993
Debt securities issued	–	–	–	1,128	–	–	–	1,128
	272,735	**64,941**	**33,695**	**165,913**	**77,929**	**76,811**	**300**	**692,324**
Net position	**(147,547)**	**21,548**	**51,972**	**2,388**	**132,300**	**(36,975)**	**32,535**	**56,221**
Accumulated gap	***(147,547)***	***(125,999)***	***(74,027)***	***(71,639)***	***60,661***	***23,686***	***56,221***	

	December 31, 2005							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	32,863	21,711	2,662	–	–	–	–	57,236
Due from credit institutions	28,976	–	136	2,986	1,300	–	–	33,398
Loans to customers	–	39,093	29,968	75,655	120,779	27,145	4,736	297,376
Net investment in lease	–	108	–	24	3,949	233	–	4,314
Investment securities:								
- available-for-sale	–	944	4,379	2,498	–	506	–	8,327
- held-to-maturity	–	–	111	2,169	–	–	–	2,280
	61,839	**61,856**	**37,256**	**83,332**	**126,028**	**27,884**	**4,736**	**402,931**
Liabilities:								
Owed to credit institutions	41,781	22,572	2,401	3,560	8,559	–	–	78,873
Owed to customers	145,051	7,619	25,773	35,889	55,392	228	–	269,952
Debt securities issued	–	–	–	–	1,143	–	–	1,143
	186,832	**30,191**	**28,174**	**39,449**	**65,094**	**228**	**–**	**349,968**
Net position	**(124,993)**	**31,665**	**9,082**	**43,883**	**60,934**	**27,656**	**4,736**	**52,963**
Accumulated gap	***(124,993)***	***(93,328)***	***(84,246)***	***(40,363)***	***20,571***	***48,227***	***52,963***	

(Thousands of Georgian Lari)

23. Financial risk management (continued)

Liquidity risk (continued)

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. 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.

The Group's principal sources of liquidity are as follows:

- deposits;
- debt issues;
- proceeds from sale of securities;
- inter-bank deposit agreement;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

The management of the Group has adopted the following action plan to improve the liquidity position of the Group:

- In October 2006, the Group has entered into a USD 25 million (GEL 44,325) ten-year convertible subordinated loan facility agreements with a fund advised by HBK Investments L.P. Subordinated loan, which has been fully disbursed, has the annual interest rate of 4% (four percent). HBK has an option to convert the Convertible Loan into shares of Bank of Georgia over two years from the date of the disbursement at a 20% premium to a future event-driven reference market price.

As of September 30, 2006, deposits amounted to 467,992 GEL (December 31, 2005 – GEL 269,952) and represented 65% (December 31, 2005 – 73%) of our total liabilities. These borrowings continue to provide a substantial majority of the Group's funding and represent a well-diversified and stable source of funds. As of September 30, 2006, amounts owed to other credit institutions accounted for 223,203 GEL (December 31, 2005 – GEL 78,873) and represented 31 % (December 31, 2005 – 21%) of total liabilities. Amounts owed to other financial institutions are taken from a wide range of counterparties.

In management's opinion, liquidity is sufficient to meet our present requirements.

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 Group'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 Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Georgian Lari)

24. Fair values of financial instruments

The following methods and assumptions are used by the Group 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 September 30, 2006 and December 31, 2005 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 equals 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 September 30, 2006 and December 31, 2005, 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 September 30, 2006 and December 31, 2005, 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 Group's balance sheet at fair value.

	September 30, 2006 (unaudited)		*December 31, 2005*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets				
Amounts due from credit institutions	56,192	56,192	33,398	33,398
Loans to customers	560,403	560,403	297,376	297,376
Investment securities:				
- available-for-sale	6,161	6,161	8,327	8,327
- held-to-maturity	253	253	2,280	2,280
Financial liabilities				
Due to credit institutions	223,203	223,203	78,873	78,873
Due to customers	467,993	467,993	269,952	269,952
Debt securities issued	1,128	1,128	1,143	1,143

(Thousands of Georgian Lari)

25. 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.

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 period end, and related expense and income for the period are as follows:

	September 30, 2006 (unaudited)				*September 30, 2005 (unaudited)*			
	Share-holders	***Entities under common control***	***Associates***	***Top manage-ment personnel***	***Share-holders***	***Entities under common control***	***Associates***	***Top manage-ment personnel***
Loans outstanding as of January 1, gross	**–**	**16,733**	**3,272**	**1,143**	**–**	**6,190**	**966**	**652**
Loans granted during the period	121	10,424	16,947	896	–	3,240	5,245	522
Loan repayments during the period	–	(20,019)	(15,484)	(1,698)	–	(6,276)	(4,254)	(348)
Loans outstanding as of September 30, gross	**121**	**7,138**	**4,735**	**341**	**–**	**3,154**	**1,957**	**826**
Less: Allowance for impairment as of September 30	–	(141)	(138)	(7)	–	(63)	(39)	(16)
Loans outstanding as of September 30, net	**121**	**6,997**	**4,597**	**334**	**–**	**3,091**	**1,918**	**810**
Deposits as of January 1	**–**	**252**	**1,751**	**113**	**–**	**2**	**1,837**	**12**
Deposits received during the period	34,694	54,667	51,888	26,029	392	5,542	13,999	3,033
Deposits repaid during the period	(23,579)	(54,915)	(52,262)	(24,184)	–	(5,536)	(14,846)	(2,222)
Deposits as of September 30	**11,115**	**4**	**1,377**	**1,958**	**392**	**8**	**990**	**823**
Interest income on loans	2	2,447	814	58	–	341	108	74
Impairment of loans	–	–	–	–	–	–	–	–
Interest expense on deposits	5		100	29	–		30	45
Commitments and guarantees received	–	–	–	–	–	–	–	–
Fee and commission income	–	12	15	1	–	–	6	1

All transactions with related parties were conducted on market conditions except for some of the loans issued to associates that were granted with principal and interest payable at maturity.

(Thousands of Georgian Lari)

25. Related party transactions (continued)

Compensation of top management personnel comprised the following:

	For the nine months ended September 30	
	2006 (unaudited)	***2005 (unaudited)***
Salaries and other short-term benefits	895	735
Share – based compensation	27	475
Social security costs	22	6
Total top management compensation	**944**	**1,216**

During the nine month period the Group provided its top management with share-based compensation. The total amount of compensation under that plan during the nine month period ended September 30, 2006 totaled to GEL 27 or 8,333 ordinary shares of the Bank (nine months ended September 30, 2005 – GEL 475 or 144,000 ordinary shares) All shares are fully vested ordinary shares. The fair value of the shares at the grant date (August 18, 2004) was 3.299 Georgian Lari per share. The fair value of the shares was based on the weighted average observable market prices for the shares traded at Georgian Stock Exchange at the grant date.

The total quantity of the shares granted at the grant date was 600,000 newly issued ordinary shares of which 500,000 shares are to vest over 3 year period starting August 18, 2004. The remaining shares are fully vested at September 30, 2005.

26. Capital adequacy

The NBG requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. As of September 30, 2006 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum. (December 31, 2005 - the Bank's capital adequacy ratio on this basis exceeded the statutory minimum).

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988 exceeded the recommended minimum ratio of 8% as of September 30, 2006 and December 31, 2005.

27. Subsequent events

Anticipated listing on London Stock Exchange

The Group is currently preparing for a public offering on the London Stock Exchange in 2006 (the "Offering"). The Bank already has negotiated and identified all the parties to be involved in the Offering process. ING Bank N.V. was appointed as the sole global co-coordinator, global book runner and lead manager of and Baker Mackenzie LLP as the transaction counsel. The Group is planning to issue GDR's through a depositary which will be listed on London Stock Exchange. The Group intends to use part of the proceeds from the Offering for regional expansion of its business.

Business development

In October of 2006 the Group increased investment in a financial institution in Ukraine by GEL 1,743.

On October 23, 2006, the Group established Galt & Taggart Securities (Ukraine) LLC ("GTU") in Ukraine. GTU intends to engage in investment banking (including, without limitation, corporate finance advisory, broker-dealer and research activities) and, eventually, in asset management, and has applied to the State Securities Commission of Ukraine for the appropriate licenses for those activities.

On November 6, 2006 the Group established its Executive Equity Compensation Plan (the "EECP"). The Group settled the trust with GEL 1.5 million. In connection with the EECP, the trust will subscribe to 1,000,000 shares of the Bank in the form of GDRs. The trust is further expected to subscribe to an additional 500,000 shares of the Bank in the form of GDRs which management expects to occur in 2007, subject to the availability of authorized and not issued shares.