CLOSED JOINT STOCK COMPANY HALYK BANK GEORGIA

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2013

CLOSED JOINT STOCK COMPANY HALYK BANK GEORGIA

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Management is responsible for the preparation of the financial statements that present fairly the financial position of Closed Joint Stock Company Halyk Bank Georgia (the "Bank") as at December 31, 2013, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended December 31, 2013 were authorized for issue on March 11, 2014 by the Management Board of the Bank.

On behalf of the Management Board:

General Director
Nikoloz Geguchadze

March 11, 2014
Tbilisi, Georgia

Chief Accountant
Gulnara Marshanishvili

March 11, 2014
Tbilisi, Georgia

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company Halyk Bank Georgia:

Report on the financial statements

We have audited the accompanying financial statements of Closed Joint Stock Company Halyk Bank Georgia (the "Bank"), which comprise the statement of financial position as at December 31, 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

March 11, 2014
Tbilisi, Georgia

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Interest income	5, 24	9,199	5,762
Interest expense	5, 24	(3,256)	(2,282)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION / (PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		5,943	3,480
Recovery of provision / (provision) for impairment losses on interest bearing assets	6	86	(370)
NET INTEREST INCOME		6,029	3,110
Net gain on foreign exchange operations	7	332	270
Fee and commission income	8	238	198
Fee and commission expense	8	(144)	(122)
Recovery of provision / (provision) on other operations	21	12	(7)
Other income		2	624
NET NON-INTEREST INCOME		440	963
OPERATING INCOME		6,469	4,073
OPERATING EXPENSES	9, 24	(4,765)	(4,297)
PROFIT / (LOSS) BEFORE INCOME TAX		1,704	(224)
Income tax (expense) / benefit	10	(242)	14
Net profit / (loss) for the year		**1,462**	**(210)**
Other comprehensive income		-	-
Total comprehensive income / (loss)		**1,462**	**(210)**

On behalf of the Management Board:

General Director	**Chief Accountant**
Nikoloz Geguchadze	**Gulnara Marshanishvili**
March 11, 2014	March 11, 2014
Tbilisi, Georgia	Tbilisi, Georgia

The notes on pages 8-50 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	December 31, 2013	December 31, 2012
ASSETS:			
Cash and balances with the National Bank of Georgia	11	5,227	3,403
Due from banks	12, 24	21,868	6,454
Loans to customers	13, 24	81,532	44,966
Investments available for sale	14	54	54
Investments held to maturity	15	6,352	6,379
Property and equipment	16	7,923	7,869
Deferred income tax assets	10	568	810
Intangible assets	17	1,185	1,274
Other assets	18	143	77
TOTAL ASSETS		**124,852**	**71,286**
LIABILITIES:			
Deposits by banks	19, 24	68,582	38,818
Deposits by customers	20, 24	13,747	8,325
Other liabilities	21	376	458
TOTAL LIABILITIES		**82,705**	**47,601**
EQUITY:			
Share capital	22	48,000	31,000
Accumulated deficit		(5,853)	(7,315)
TOTAL EQUITY		**42,147**	**23,685**
TOTAL LIABILITIES AND EQUITY		**124,852**	**71,286**

On behalf of the Management Board:

General Director
Nikoloz Geguchadze

March 11, 2014
Tbilisi, Georgia

Chief Accountant
Gulnara Marshanishvili

March 11, 2014
Tbilisi, Georgia

The notes on pages 8-50 form an integral part of these financial statements.

CLOSED JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	Share capital	Accumulated deficit	Total equity
December 1, 2012		**31,000**	**(7,105)**	**23,895**
Total comprehensive loss		-	(210)	(210)
December 31, 2012		**31,000**	**(7,315)**	**23,685**
Issue of ordinary shares	22	17,000	-	17,000
Total comprehensive income		-	1,462	1,462
December 31, 2013		**48,000**	**(5,853)**	**42,147**

On behalf of the Management Board:

General Director
Nikoloz Geguchadze

March 11, 2014
Tbilisi, Georgia

Chief Accountant
Gulnara Marshanishvili

March 11, 2014
Tbilisi, Georgia

The notes on pages 8-50 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit / (loss) before income tax		1,704	(224)
Adjustments for non-cash items:			
(Recovery of provision) / provision for impairment losses on interest bearing assets	6	(86)	370
Provision on other operations	21	23	30
Foreign exchange gain / (loss)		19	(270)
Depreciation and amortization	9	448	459
Changes in interest accruals, net		113	741
Reversal of provision on prepayment for property and equipment		-	(596)
Cash inflow from operating activities before changes in operating assets and liabilities		2,221	510
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank of Georgia		(832)	(36)
Due from banks		4,936	3,321
Loans to customers		(35,069)	(26,743)
Other assets		(65)	145
Increase/(decrease) in operating liabilities			
Deposits by customers		5,009	113
Deposits by banks		28,547	22,108
Other liabilities		(105)	143
Net cash inflow / (outflow) from operating activities		**4,642**	**(439)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property and equipment		(392)	(1,069)
Proceeds from disposal of property and equipment		-	18
Payments for intangible assets		(23)	(104)
Proceeds from investments held to maturity		-	3,501
Net cash (outflow) / inflow from investing activities		**(415)**	**2,346**

CLOSED JOINT STOCK COMPANY HALYK BANK GEORGIA

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Georgian Lari)

	Notes	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares	22	17,000	-
Net cash inflow from financing activities		**17,000**	**-**
Effect of exchange rate changes on the balance of cash held in foreign currencies		76	265
NET DECREASE IN CASH AND CASH EQUIVALENTS		21,303	2,172
CASH AND CASH EQUIVALENTS, beginning of the year	11	3,684	1,512
CASH AND CASH EQUIVALENTS, end of the year	11	24,987	3,684

Interest paid and received by the Bank during the year ended December 31, 2012 amounted to GEL 1,462 thousand and GEL 5,683 thousand, respectively.

Interest paid and received by the Bank during the year ended December 31, 2013 amounted to GEL 2,824 thousand and GEL 8,874 thousand, respectively.

On behalf of the Management Board:

General Director
Nikoloz Geguchadze

March 11, 2014
Tbilisi, Georgia

Chief Accountant
Gulnara Marshanishvili

March 11, 2014
Tbilisi, Georgia

The notes on pages 8-50 form an integral part of these financial statements.

1. ORGANIZATION

Halyk Bank Georgia (the "Bank") is a closed joint stock bank, which was incorporated in Georgia on January 29, 2008. The Bank is regulated by the National Bank of Georgia (the "NBG") and conducts its business under general license number 0110246. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees and deposit taking.

The registered office of the Bank is located on 74 Kostava Street, Tbilisi, Georgia.

As at December 31, 2013 and 2012 the Bank had four and three branches, respectively, operating in Georgia.

As at December 31, 2013 and 2012 the following shareholder owned the issued shares of the Bank.

	December 31, 2013	December 31, 2012
First level shareholder:		
JSC Halyk Bank	100%	100%
Total	**100%**	**100%**

JSC Halyk Bank is ultimately controlled by Timur Kulibayev and Dinara Kulibayeva.

These financial statements were authorised for issue on March 11, 2014 by the Management Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

These financial statements have been prepared on the historical cost convention. Historical cost is generally based on the fair value of the consideration given for goods and services.

The Bank registered in Georgia maintains its accounting records in accordance with Georgian legislation. These financial statements have been prepared from statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its consolidated companies are registered in Georgia and maintain their accounting records in accordance with Georgian law. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non–current).

Functional currency

Items included in the financial statements are measured using the currency of the primary of the economic environment in which the Bank operates ("the functional currency"). The functional currency of the Bank is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Bank is the GEL. All values are rounded to the nearest thousand Laris, except when otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below:

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Recognition of fee and commission income

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. All other commissions are recognized when services are provided.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the National Bank of Georgia with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Minimum reserve deposits with the National Bank of Georgia

Minimum reserve deposits with the National Bank of Georgia represent the amount of obligatory reserves deposits with the National Bank of Georgia in accordance with requirements established by the National Bank of Georgia, which is not available to finance the Banks day-to-day operations, hence is not considered as a part of cash and cash equivalents.

Financial instruments

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: investments held to maturity, investments available for sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Investments held to maturity

Investments held to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Investments held to maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of investments held to maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during current financial year and following two financial years.

Investments available for sale financial assets

Investments available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity.

The Bank has investments in unlisted shares that are not traded in an active market and are classified as AFS financial assets and stated at cost less any identified impairment losses at the end of each reporting period as the management considers that fair value can not be reliably measured.

Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.
For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due.

Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans

Loans are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as deposits by banks and customers and other financial liabilities.

Financial liabilities classified as deposits by banks and customers and other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair value and, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. 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 derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(in thousands of Georgian Lari)

Property and equipment

Initial cost of property and equipment is assessed based on actual expenses for their acquisition that comprise purchase price, including non-refundable purchase taxes and any directly attributed costs of bringing the assets to its working condition and location for intended use. Subsequent to initial recognition property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost (other than freehold land and construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	1%-2%
Furniture and fixtures	10%-15%
Computer and communication equipment	10%-33.33%
Vehicles	20%-33.33%
Leasehold improvement	25%-50%
Other	15%

Freehold land is not depreciated.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets	6.67% - 50%

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of non financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax asset is recognized for taxable temporary differences associated with loans to customers, property and equipment and other assets, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such balances are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws and rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss and other comprehensive income, except when they relate to items that are recognized in the statement of profit or loss or directly in equity, in which case, the current and deferred tax are also recognized in the statement of profit or loss and other comprehensive income or directly in equity respectively.

Operating taxes

Georgia has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

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

	December 31, 2013	December 31, 2012
GEL/1 US Dollar	1.7363	1.6567
GEL/1 Euro	2.3891	2.1825

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Share capital

Contributions to share capital are recognized at cost. Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Banks's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Investments held to maturity

The management has reviewed the Bank's investments held to maturity in the light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity. As at December 31, 2013 and 2012 the carrying amount of the investments held to maturity is GEL 6,352 thousand and GEL 6,379 thousand, respectively. Details of these assets are set out in Note 15.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Bank's management regularly reviews its loans and receivables to assess for impairment. The Banks's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank's management considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Banks's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and 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. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data. The Bank makes individual as well as group assessment of the loan portfolio for impairment.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Georgia and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2013 and 2012 the gross loans to customers totaled GEL 81,927 thousand and GEL 45,381 thousand, respectively, and allowance for impairment losses on loans to customers amounted to GEL 395 thousand and GEL 415 thousand, respectively.

Useful lives of property and equipment, and intangible assets

As described above, the Bank's management reviews the estimated useful lives of property, plant and equipment, and intangible assets at the end of each annual reporting period. The estimation of the useful life of an item of property, plant and equipment and intangible assets is a matter of management judgment based upon experience with similar assets. In determining useful life of an asset, management considers the expected usage, estimated technical obsolescences, physical wear and tear and the physical environment in which the asset is operated. Changes in any once of these conditions or estimates may result in adjustment to future depreciation and amortization rates.

Recoverability of deferred tax assets

The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax asset will be fully realized. In case the Bank's taxable profit for the year 2014 will not be enough to utilize loss carryforward balance, the Bank's management will consider to extend loss carryforward period from 5 to 10 years by submitting required application to Revenue Service of Georgia. The carrying value of deferred tax assets amounted to GEL 568 thousand and GEL 810 thousand as at December 31, 2013 and 2012, respectively.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting the financial statements

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures.* Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards. The standards IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance and IAS 27 (as revised in 2011) is not applicable to the Bank as it deals only with separate standalone financial statements.

The application of these standards has no impact on the financial statements.

Amendments to IFRS 7 *Financial instruments: Disclosures.* The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

In the current year, the Bank has not transferred any financial assets that would result in the application of the amendments that would resulted in more disclosures regarding the transfer of financial assets.

Amendments to IAS 1 *Presentation of financial statements (amended June 2011).* The Bank has applied the amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income* in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates.

The application of the amendments to IAS 1 does not result in any impact on statement of profit or loss and other comprehensive of the Bank.

IFRS 13 *Fair Value Measurement*. The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases, and measurements* that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012).

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Bank are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:
IFRS 9 *Financial Instruments*
Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*[2]
Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*[1]
Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities1*

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

IFRS 9 *Financial Instruments*. IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other

comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The management of the Bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities (e.g. the Bank's investments in redeemable notes that are currently classified as available-for-sale financial assets will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The management of the Bank does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Bank's financial statements as the Bank does not have any financial assets and financial liabilities that qualify for offset.

(in thousands of Georgian Lari)

5. NET INTEREST INCOME

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	2,171	1,104
- interest income on unimpaired financial assets	7,028	4,658
Total interest income	**9,199**	**5,762**
Interest income on financial assets recorded at amortized cost comprises:		
Loans to customers	8,089	4,201
Investments held to maturity	694	1,507
Due from banks	380	30
Balances with the National Bank of Georgia	36	24
Total interest income	**9,199**	**5,762**
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost:	(3,256)	(2,282)
Total interest expense	**(3,256)**	**(2,282)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Deposits by banks	(2,679)	(1,588)
Deposits by customers	(577)	(694)
Total interest expense	**(3,256)**	**(2,282)**
Net interest income before recovery of provision / (provision) for impairment losses on interest bearing financial assets	**5,943**	**3,480**

6. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers
January 1, 2012	**208**
Additional provisions recognized	370
Write-off of assets	(163)
December 31, 2012	**415**
Recovery of provision	(86)
Write-off of assets	(4)
Recoveries of assets previously written off	70
December 31, 2013	**395**

(in thousands of Georgian Lari)

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended December 31, 2013	Year ended December 31, 2012
Dealing, net	351	294
Translation differences, net	(19)	(24)
Total net gain on foreign exchange operations	**332**	**270**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2013	Year ended December 31, 2012
Fee and commission income:		
Settlements	76	54
Cash operations	72	70
Plastic card operations	62	51
Other	28	23
Total fee and commission income	**238**	**198**
Fee and commission expense:		
Settlements	(55)	(49)
Cash operations	(13)	(6)
Plastic card services	(75)	(67)
Other	(1)	-
Total fee and commission expense	**(144)**	**(122)**

(in thousands of Georgian Lari)

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2013	Year ended December 31, 2012
Staff costs	3,222	2,737
Depreciation and amortization	448	459
Professional services	143	103
Operating leases	101	173
Communications	90	76
Taxes, other than income tax	79	73
Utilities	49	46
Advertising costs	37	63
Business trip expenses	36	20
Security expenses	29	26
Representative expenses	28	46
Office supplies	23	12
Property and equipment maintenance	16	26
Insurance expense	4	5
Other expenses	460	432
Total operating expenses	**4,765**	**4,297**

10. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia, which differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2013 and 2012 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits as defined under tax law of Georgia.

Deferred tax assets / (liabilities) as at December 31, 2013 and 2012 comprise:

	December 31, 2013	December 31, 2012
Provision for other operations	30	278
Other financial liabilities	11	14
Other assets	8	52
Loans to customers	(282)	(136)
Property and equipment and intangible assets	(127)	(87)
Tax loss carry forwards	928	1,013
Deferred tax asset not recognized	-	(324)
Net deferred tax asset	**568**	**810**

(in thousands of Georgian Lari)

The effective tax rate reconciliation is as follows for the years ended December 31, 2013 and 2012:

	Year ended December 31, 2013	Year ended December 31, 2012
Profit / (loss) before income tax	1,704	(224)
Tax at the statutory tax rate (15%)	256	(34)
Tax effect of permanent differences	(14)	20
Income tax expense / (benefit)	**242**	**(14)**
Deferred tax expense / (benefit) recognized in the current year	242	(14)
Income tax expense / (benefit)	**242**	**(14)**

	2013	2012
As at January 1 - deferred tax asset	**810**	**796**
Change in deferred income tax asset recongised in profit or loss	(242)	14
As at December 31 - deferred tax asset	**568**	**810**

11. CASH AND BALANCES WITH THE NATIONAL BANK OF GEORGIA

	December 31, 2013	December 31, 2012
Cash	2,544	1,478
Balances with the National Bank of Georgia	2,683	1,925
Total cash and balances with the National Bank of Georgia	**5,227**	**3,403**

The obligatory minimum reserve deposits with the National Bank of Georgia included in the balances with the NBG are restricted balances of GEL 2,060 thousand and GEL 1,192 thousand, respectively, as at December 31, 2013 and 2012. The Bank is required to maintain minimum reserve deposits at the National Bank of Georgia at all times.

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

	December 31, 2013	December 31, 2012
Cash and balances with the National Bank of Georgia	5,227	3,403
Correspondent accounts and time deposits with original maturity up to 90 days	21,820	1,473
	27,047	4,876
Less: minimum reserve deposits with the National Bank of Georgia	(2,060)	(1,192)
Total cash and cash equivalents	**24,987**	**3,684**

(in thousands of Georgian Lari)

12. DUE FROM BANKS

Due from banks comprise:

	December 31, 2013	December 31, 2012
Time deposits	18,505	4,981
Correspondent accounts	3,363	1,473
Total due from banks	**21,868**	**6,454**

As at December 31, 2013 and 2012 due from banks included accrued interest in the amount of GEL 5 thousand and GEL 2 thousand, respectively.

As at December 31, 2013 and 2012 the Bank had balances due from one bank, respectively with individual exposure exceeding 32% and 23% of the Bank's equity.

As at December 31, 2013 and 2012 the maximum credit risk exposure of balances due from banks amounted to GEL 21,868 thousand and GEL 6,454 thousand, respectively.

As at December 31, 2013 and 2012 included in balances due from banks are guarantee deposits placed by the Bank for its operations totaling GEL17 thousand and GEL 18 thousand, respectively.

13. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2013	December 31, 2012
Loans to customers	81,927	45,381
Less: allowance for impairment losses	(395)	(415)
Total loans to customers	**81,532**	**44,966**

Movements in the allowance for impairment losses for the years ended December 31, 2013 and 2012 are disclosed in Note 6.

As at December 31, 2013 and 2012 loans to customers included accrued interest in the amount of GEL 520 thousand and GEL 349 thousand, respectively.

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2013	December 31, 2012
Loans collateralized by combined collateral	57,307	27,356
Loans collateralized by pledge of real estate	18,392	11,725
Loans collateralized by cash	3,548	3,969
Loans collateralized by guarantees	978	1,140
Loans collateralized by vehicle	-	10
Unsecured loans	1,702	1,181
	81,927	45,381
Less: allowance for impairment losses	(395)	(415)
Total loans to customers	**81,532**	**44,966**

(in thousands of Georgian Lari)

	December 31, 2013	December 31, 2012
Analysis by sector:		
Trade and service	46,159	24,983
Individuals	21,087	12,162
Transportation	4,580	680
Construction	4,075	5,100
Other sector	6,026	2,456
	81,927	45,381
Less: allowance for impairment losses	(395)	(415)
Total loans to customers	**81,532**	**44,966**

Loans to individuals comprise the following products:

	December 31, 2013	December 31, 2012
Mortgage loans	8,698	5,703
Consumer loans	12,389	6,459
	21,087	12,162
Less: allowance for impairment losses	(77)	(56)
Total loans to individuals	**21,010**	**12,106**

As at December 31, 2013 and 2012 the Bank granted loans to 5 customers totaling GEL 28,944 thousand and GEL 10,654 thousand, respectively, which individually exceeded 5% of the Bank's equity.

As at December 31, 2013 and 2012 significant amount of customers (98% and 99% of total loans to customers) is granted to companies operating in Georgia, which represents a significant geographical concentration in one region.

As at December 31, 2013 and 2012 loans to customers included loans totaling GEL 991 thousand and GEL 4,485 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Analysis by credit quality of loans to customers outstanding as at 31 December 2013 and 2012 was as follows:

As at December 31, 2013	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due	31,738	(108)	31,630	0.34%
Overdue:				
up to 30 days	1,160	(4)	1,156	0.35%
31 to 60 days	128	(1)	127	0.78%
61 to 90 days	134	-	134	-
91 to 180 days	271	(1)	270	0.37%
over 180 days	321	(1)	320	0.31%
Total collectively assessed loans	**33,752**	**(115)**	**33,637**	**0.34%**

(in thousands of Georgian Lari)

Individually assessed				
Not past due	46,421	(273)	46,148	0.59%
Overdue:				
up to 30 days	1,754	(7)	1,747	0.40%
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	-	-	-	-
Total collectively assessed loans	**48,175**	**(280)**	**47,895**	**0.58%**
Total loans to customers	**81,927**	**(395)**	**81,532**	**0.48%**

As at December 31, 2012	**Gross loans**	**Provision for impairment**	**Net loans**	**Provision for impairment to gross loans**
Collectively assessed				
Not past due	21,245	(149)	21,096	0.70%
Overdue:				
up to 30 days	587	(3)	584	0.51%
31 to 60 days	414	(1)	413	0.24%
61 to 90 days	138	-	138	-
91 to 180 days	491	(21)	470	4.28%
over 180 days	-	-	-	-
Total collectively assessed loans	**22,875**	**(174)**	**22,701**	**0.76%**
Individually assessed				
Not past due	22,506	(241)	22,265	1.07%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
91 to 180 days	-	-	-	-
over 180 days	-	-	-	-
Total collectively assessed loans	**22,506**	**(241)**	**22,265**	**1.07%**
Total loans to customers	**45,381**	**(415)**	**44,966**	**0.91%**

The table below summarizes an analysis of loans to customers by type of impairment:

	December 31, 2013			**December 31, 2012**		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowanc**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	20,804	(183)	20,621	626	(21)	605
Loans to customers collectively determined to be impaired	57,793	(212)	57,581	36,505	(394)	36,111
Unimpaired loans	3,330	-	3,330	8,250	-	8,250
Total	**81,927**	**(395)**	**81,532**	**45,381**	**(415)**	**44,966**

(in thousands of Georgian Lari)

14. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	December 31, 2013	December 31, 2012
JSC United Billing Center	54	54
Total investments available for sale	**54**	**54**

15. INVESTMENTS HELD TO MATURITY

	December 31, 2013		December 31, 2012	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
Treasury bills	11.3%-15.2%	6,357	11.3%-15.6%	6,386
Less: discount		(5)		(7)
Total investments held to maturity		**6,352**		**6,379**

As at December 31 2013 and 2012 interest accrued on investments held to maturity represents GEL 268 thousand and GEL 268 thousand, respectively.

As at December 31 2013 and 2012 balance of premium on investments held to maturity represents GEL 89 thousand and GEL 117 thousand, respectively.

As at December 31 2013 and 2012 balance of discount on investments held to maturity represents GEL 5 thousand and GEL 7 thousand, respectively.

(in thousands of Georgian Lari)

16. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Buildings and other real estate	Computers and communication	Vehicles	Furniture and fixture	Other	Construction in progress	Leasehold Improvements	Total
At initial cost								
January 1, 2012	**3,043**	**723**	**246**	**349**	**341**	**2,829**	**22**	**7,553**
Additions	596	47	1	27	77	875	-	1,623
Disposals	-	-	-	-	(44)	-	-	(44)
Transfers	3,444	-	-	115	-	(3,559)	-	-
December 31, 2012	**7,083**	**770**	**247**	**491**	**374**	**145**	**22**	**9,132**
Additions	-	312	-	20	22	4	32	390
Transfers	-	50	-	-	-	(50)	-	-
December 31, 2013	**7,083**	**1,132**	**247**	**511**	**396**	**99**	**54**	**9,522**
Accumulated depreciation								
January 1, 2012	**96**	**366**	**172**	**159**	**141**	-	**2**	**936**
Charge for the year	42	143	49	55	53	-	11	353
Eliminated on write off	-	-	-	-	(26)	-	-	(26)
December 31, 2012	**138**	**509**	**221**	**214**	**168**	-	**13**	**1,263**
Charge for the year	99	88	8	74	56	-	11	336
December 31, 2013	**237**	**597**	**229**	**288**	**224**	-	**24**	**1,599**
Net book value								
As at December 31, 2013	**6,846**	**535**	**18**	**223**	**172**	**99**	**30**	**7,923**
As at December 31, 2012	**6,945**	**261**	**26**	**277**	**206**	**145**	**9**	**7,869**

As at December 31, 2013 and 2012 the Bank did not have any pledged property and equipment.

As at December 31, 2013 and 2012 included in property and equipment were fully depreciated assets totaling GEL 157 thousand and nil, respectively.

(in thousands of Georgian Lari)

17. INTANGIBLE ASSETS

	Intangible assets
At initial cost	
January 1, 2012	**2,060**
Additions	105
December 31, 2012	**2,165**
Additions	23
December 31, 2013	**2,188**
Accumulated amortization	
January 1, 2012	**785**
Charge for the year	106
December 31, 2012	**891**
Charge for the year	112
December 31, 2013	**1,003**
Net book value	
As at December 31, 2013	**1,185**
As at December 31, 2012	**1,274**

Intangible assets include software and licenses.

18. OTHER ASSETS

Other assets comprise:

	December 31, 2013	December 31, 2012
Other financial assets		
Accounts receivable	13	4
Other non-financial assets		
Prepaid expenses	88	27
Prepayments for property and equipment	42	41
Tax settlements, other than income tax	-	5
Total other assets	**143**	**77**

(in thousands of Georgian Lari)

19. DEPOSITS BY BANKS

Deposits by banks

	December 31, 2013	December 31, 2012
Deposits by parent	49,480	28,990
Deposits by resident commercial banks	19,102	7,627
Loans from the National Bank of Georgia	-	2,201
Total deposits by banks	**68,582**	**38,818**

As at December 31, 2013 and 2012 deposits by banks included accrued interest in the amount of GEL 866 thousand and GEL 828 thousand, respectively.

20. DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	December 31, 2013	December 31, 2012
Repayable on demand	6,467	3,536
Time deposits	7,280	4,789
Total deposits by customers	**13,747**	**8,325**

As at December 31, 2013 and 2012 deposits by customers included accrued interest in the amount of GEL 240 thousand and GEL 19 thousand, respectively.

As at December 31, 2013 and 2012 deposits by customers totaling GEL 9,359 thousand and GEL 5,920 thousand (68% and 71% of total deposits by customers), respectively were due to ten customers, which represents a significant concentration.

As at December 31, 2013 and 2012 deposits by customers totaling GEL 54 thousand and GEL 14 thousand, respectively were held as security against guarantees issued by the Bank.

As at December 31, 2013 and 2012 deposits by customers totaling GEL 5,541 thousand and GEL 3,929 thousand, respectively, were pledged as security for loans to customers.

	December 31, 2013	December 31, 2012
Analysis by economic sector/customer type:		
Individuals	9,859	2,002
Trade and service	2,595	5,841
Construction	1,134	387
Other	159	95
Total deposits by customers	**13,747**	**8,325**

(in thousands of Georgian Lari)

21. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2013	December 31, 2012
Other financial liabilities:		
Account payables	168	273
Other non-financial liabilities		
Provision for employee benefits	199	164
Provision for guarantees	3	15
Taxes payable, other than income tax	6	6
Total other liabilities	**376**	**458**

The movements in provisions for guarantees and employee benefits were as follows:

	Guarantee	Provision for employee benefits
January 1, 2012	8	141
Additional provisions recognized	7	23
December 31, 2012	15	164
(Recovery of provision) / additional provisions recognized	(12)	35
December 31, 2013	**3**	**199**

22. SHARE CAPITAL

On May 14, 2013 JSC Halyk Bank Kazakhstan has increased share capital of the Bank by GEL17,000 thousand.

As at December 31, 2013 and 2012 the Bank's authorized and issued share capital consisted of 48,000 and 31,000 ordinary shares, respectively with par value of GEL 1,000 each. As at December 31, 2013 and 2012, the Bank's issued share capital was fully paid.

(in thousands of Georgian Lari)

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

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

Provision for losses on contingent liabilities totaled GEL 3 thousand and GEL 15 thousand as at December 31, 2013 and 2012, respectively.

As at December 31, 2013 and 2012 contingent liabilities comprise:

	December 31, 2013	December 31, 2012
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	860	1,009
Commitments on loans and unused credit lines	7,778	4,656
Total contingent liabilities and credit commitments	**8,638**	**5,665**

Capital commitments – No material capital commitments were outstanding as at December 31, 2013 and 2012.

Operating lease commitments – No material rental commitments were outstanding as at December 31, 2013 and 2012.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation – Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

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

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Georgia and the Georgia's economy in general.

(in thousands of Georgian Lari)

Laws and regulations affecting businesses in Georgia continue to change rapidly. The future economic direction of Georgia is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected Georgia's financial and capital markets in 2010 and 2011 has receded and Georgia's economy returned to growth in 2012 and 2013. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Georgia's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

24. TRANSACTIONS WITH RELATED PARTIES

	December 31, 2013		December 31, 2012	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Due from banks	47	21,868	34	6,454
- the parent	47		34	
Loans to customers	71	81,532	130	44,966
- key management personnel of the Bank or its parent	71		130	
Deposits by customers	127	13,747	53	8,325
- key management personnel of the Bank or its parent	40		15	
- other related parties	87		38	
Deposits by banks	49,480	68,582	28,990	38,818
- the parent	49,480		28,990	

The remuneration of directors and other members of key management were as follows:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:	592	3,222	589	2,737
- short-term employee benefits	592		589	

(in thousands of Georgian Lari)

Included in the statement of profit or loss and other comprehensive income for the year ended December 31, 2013 and 2012 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	15	9,199	21	5,762
- *key management personnel of the entity or* its *parent*	15		21	
Interest expense	2,427	3,256	1,274	2,282
-Parent	2,424		1,269	
- *key management personnel of the entity or its parent*	-		1	
- *Other related parties*	3		4	
Operating expenses	600	4,765	596	4,297
- *key management personnel of the entity or its parent*	600		596	

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement". IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and balances with the National Bank of Georgia – Cash and balances with the National Bank of Georgia are carried at amortized cost which approximates their current fair value.

Due from banks – Due from banks are carried at amortized cost which approximates their current fair value.

Loans and receivables carried at amortized cost – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

(in thousands of Georgian Lari)

Investments held to maturity – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Available-for-sale investments

Available-for-sale investments are valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Liabilities carried at amortized cost – The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discounted rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument. For the liabilities carried at amortized cost and issued at variable rates management believes that carrying rate may be assumed to be fair value.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

	December 31, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the NBG	2,683	2,683	1,925	1,925
Due from banks	21,868	21,868	6,454	6,454
Loans to customers	81,532	82,805	44,966	44,966
Investments available for sale	54	54	54	54
Investments held to maturity	6,352	6,883	6,379	6,379
Other financial assets	13	13	4	4
Deposits by banks	68,582	68,445	38,818	38,818
Deposits by customers	13,747	13,747	8,325	8,325
Other financial liabilities	168	168	273	273

(in thousands of Georgian Lari)

26. CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The management and shareholder have the intention to further develop the Bank and the Bank's management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business

The capital structure of the Bank consists of issued capital and accumulated deficit as disclosed in the statement of changes in equity.

The Shareholders Board reviews the capital structure on an annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes based on reports prepared in accordance with the NBG requirements:

	Year ended December 31, 2013	Year ended December 31, 2012
Share capital	48,000	31,000
Accumulated deficit	(8,091)	(7,374)
Less: intangible assets	(1,185)	(1,274)
Tier 1 capital	38,724	22,352
Profit for the period	805	(717)
General provisions (maximum 1.25% credit and market risk weighted assets)	1,593	887
Subordinated debt (up to 50% of tier 1 capital)	17,363	11,176
Tier 2 capital	19,761	11,346
Total regulatory capital	**58,485**	**33,698**
Risk weighted assets	**157,063**	**84,201**
Tier 1 capital adequacy ratio	24.66%	26.55%
Total regulatory capital adequacy ratio	37.24%	40.02%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (12%) and tier 1 capital (8%) to risk weighted assets.

As at December 31, 2013 and 2012, the Bank included in the computation of total regulatory capital for capital adequacy purposes the subordinated deposit received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

27. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework with the main purpose to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit Risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Bank's Management Board. Risk Management division plays important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. Risk Management division directly participates in a credit decision-making processes and consideration of internal rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or group of borrowers, and to industry segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in case of guarantees issued, the Bank obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent guarantees or letter of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure of credit risk

The Banks maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to