Consolidated and Separate Financial Statements and Independent Auditor’s Report
BasisBank Group

31 December 2018

CONTENTS

Independent Auditor's Report

To the Shareholders and Management of JSC BasisBank

Our opinion

In our opinion, the consolidated and separate financial statements (the 'financial statements') present fairly, in all material respects, the consolidated and separate financial position of JSC BasisBank (the "Bank") and its subsidiaries (together - the 'Group') as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report when it becomes available to us and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

When we read the Management Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We will also issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the Group and its circumstances, which we obtained during our audit. Our updated report will include also our opinion on the matters mentioned in the preceding paragraph.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, 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.

In preparing the financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

21 March 2019
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2018 Bank Separate	31 December 2018 Consolidated	31 December 2017 Bank Separate	31 December 2017 Consolidated
ASSETS					
Cash and cash equivalents	7	130,272	132,500	139,577	139,577
Mandatory cash balances with the NBG	8	170,443	170,443	130,824	130,824
Due from other banks	9	-	-	15,094	15,094
Investments in debt securities	10	175,690	175,690	-	-
Investments in equity securities	11	63	63	-	-
Investment in subsidiaries	41	10,096	-	8,097	-
Loans and advances to customers	12	900,803	900,803	757,874	757,874
Available-for-sale investment securities	13	-	-	63	63
Bonds carried at amortized cost	14	-	-	143,903	143,903
Investment properties	15	1,037	1,572	400	1,078
Current income tax prepayment	32	-	5	183	217
Insurance and other financial assets	16	809	5,066	1,429	1,429
Other assets	17	15,031	17,449	14,019	16,857
Intangible assets	18	1,364	1,382	861	861
Premises and equipment	18	26,421	26,457	21,888	21,894
Non-current assets held for sale	19	4,016	4,360	1,928	1,928
TOTAL ASSETS		**1,436,045**	**1,435,790**	**1,236,140**	**1,231,599**
LIABILITIES					
Due to other banks	20	100,196	100,196	59,982	59,982
Customer accounts	21	734,262	727,421	682,318	677,820
Other borrowed funds	22	345,782	345,782	270,280	270,280
Insurance and other financial liabilities	23	1,822	6,353	7,674	7,674
Current income tax liability	32	1,374	1,647	-	-
Deferred income tax liability	32	1,664	1,671	152	152
Provisions for liabilities and charges	37	374	374	346	346
Other liabilities	24	2,410	2,812	1,854	1,854
TOTAL LIABILITIES		**1,187,884**	**1,186,256**	**1,022,606**	**1,018,108**
EQUITY					
Share capital	25	16,057	16,057	16,057	16,057
Share premium		74,923	74,923	74,923	74,923
Retained earnings		146,558	147,931	113,316	113,273
Share based payment reserve	26	1,339	1,339	851	851
Revaluation reserve for premises		9,284	9,284	8,233	8,233
Revaluation reserve available-for-sale securities				154	154
TOTAL EQUITY		**248,161**	**249,534**	**213,534**	**213,491**
TOTAL LIABILITIES AND EQUITY		**1,436,045**	**1,435,790**	**1,236,140**	**1,231,599**

Approved for issue and signed on 21 March 2019.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

		31 December 2018		31 December 2017	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated**
Interest income calculated using the effective interest method	28	98,708	98,803	78,628	78,628
Interest and similar expense	28	(43,509)	(43,085)	(32,641)	(32,622)
Net margin on interest and similar income		**55,199**	**55,718**	**45,987**	**46,006**
Credit loss allowance		(966)	(966)	(1,976)	(1,976)
Net margin on interest and similar income after credit loss allowance		**54,233**	**54,752**	**44,011**	**44,030**
Fee and commission income	29	6,695	6,630	5,007	4,973
Fee and commission expense	29	(2,490)	(2,490)	(2,238)	(2,238)
Net insurance revenue		-	1,883	-	-
Net insurance claims incurred		-	(281)	-	-
Gains less losses from financial derivatives		-	-	(184)	(184)
Gains less losses from trading in foreign currencies		4,467	4,467	4,114	4,114
Foreign exchange translation gains less losses		(283)	(283)	(229)	(229)
Provision for credit related commitments		206	206	(198)	(198)
Other operating income	30	3,712	3,739	676	696
Administrative and other operating expenses	31	(25,470)	(25,858)	(19,278)	(19,333)
Profit before tax		**41,070**	**42,765**	**31,681**	**31,631**
Income tax expense	32	(5,195)	(5,473)	(1,742)	(1,742)
PROFIT FOR THE YEAR		**35,875**	**37,292**	**29,939**	**29,889**
Other comprehensive income / (loss):					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
- Gains less losses arising during the year	13	-	-	(85)	(85)
Items that will not be reclassified to profit or loss:					
Revaluation of premises and equipment	18	1,052	1,052	-	-
Other comprehensive income / (loss) for the year		**1,052**	**1,052**	**(85)**	**(85)**
Total comprehensive income for the year		**36,927**	**38,344**	**29,854**	**29,804**

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 31 December 2016		**16,057**	**74,923**	**388**	**239**	**8,233**	**85,929**	**185,769**
Profit for the year		-	-	-	-	-	29,889	29,889
Other comprehensive income	27	-	-	-	(85)	-	-	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,889	29,804
Share Based Payment accruals	26	-	-	463	-	-	-	463
Dividends declared	33	-	-	-	-	-	(2,545)	(2,545)
Balance at 31 December 2017		**16,057**	**74,923**	**851**	**154**	**8,233**	**113,273**	**213,491**
Adoption of IFRS 9: – remeasurement for expected credit losses, net of tax	5	-	-	-	-	-	202	202
– other effects	5				(154)		154	-
Restated balance at 1 January 2018		**16,057**	**74,923**	**851**	**-**	**8,233**	**113,629**	**213,693**
Profit for the year		-	-	-	-	-	37,292	37,292
Other comprehensive income	27	-	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	-	1,052	37,292	38,344
Share Based Payment accruals	26	-	-	488	-	-	-	488
Dividends declared	33	-	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		**16,057**	**74,923**	**1,339**	**-**	**9,284**	**147,931**	**249,534**

In thousands of Georgian Lari	No-te	Share capital	Share premium	Share based paym-ents reserve	Reva-luation reserve for AFS secur-ities	Reva-luation reserve for pre-mises	Retained earnings	Total equity
Balance at 31 December 2016		**16,057**	**74,923**	**388**	**239**	**8,233**	**85,924**	**185,764**
Profit for the year		-	-	-	-	-	29,939	29,939
Other comprehensive income	27	-	-	-	(85)	-	-	(85)
Total comprehensive income for 2017		-	-	-	(85)	-	29,939	29,854
Share Based Payment accruals	26	-	-	463	-	-	-	463
Dividends declared	33	-	-	-	-	-	(2,545)	(2,545)
Balance at 31 December 2017		**16,057**	**74,923**	**851**	**154**	**8,233**	**113,316**	**213,534**
Adoption of IFRS 9:								
– remeasurement for expected credit losses, net of tax	5	-	-	-	-	-	202	202
– other effects	5				(154)		154	-
Restated balance at 1 January 2018		**16,057**	**74,923**	**851**	**-**	**8,233**	**113,672**	**213,736**
Profit for the year		-	-	-	-	-	35,875	35,875
Other comprehensive income	27	-	-	-	-	1,052	-	1,052
Total comprehensive income for 2018		-	-	-	-	1,052	35,875	36,927
Share Based Payment accruals	26	-	-	488	-	-	-	488
Dividends declared	33	-	-	-	-	-	(2,989)	(2,989)
Balance at 31 December 2018		**16,057**	**74,923**	**1,339**	**-**	**9,284**	**146,558**	**248,161**

In thousands of Georgian Lari	Note	31 December 2018 Bank Separate	31 December 2018 Consolidated	31 December 2017 Bank Separate	31 December 2017 Consolidated
Cash flows from operating activities					
Interest income received		93,462	93,557	74,545	74,545
Interest paid		(42,129)	(41,705)	(33,527)	(33,508)
Fees and commissions received		6,695	6,630	5,007	4,973
Fees and commissions paid		(2,490)	(2,490)	(2,238)	(2,238)
Settlements from financial derivatives		-		(184)	(184)
Income received from trading in foreign currencies		4,467	4,467	4,287	4,287
Other operating income received		3,712	5,341	676	696
Proceeds from disposal of foreclosed properties		6,543	6,543	1,614	1,614
Staff costs paid		(13,818)	(14,144)	(11,013)	(11,014)
Administrative and other operating expenses paid		(8,963)	(9,044)	(7,046)	(7,114)
Income tax paid		(2,343)	(2,343)	(3,705)	(3,675)
Cash flows from operating activities before changes in operating assets and liabilities		**45,136**	**46,812**	**28,416**	**28,382**
Net (increase)/decrease in:-					
- due from other banks		(20,780)	(20,779)	(35,398)	(35,394)
- loans and advances to customers		(134,031)	(134,375)	(187,244)	(187,167)
- other financial assets		(26,374)	(30,631)	(13,079)	(13,080)
- other assets		(843)	(422)	(1,733)	(1,775)
Net increase/(decrease) in:					
- due to other banks		18,003	18,003	5,876	5,874
- customer accounts		40,110	37,767	118,240	113,929
- other financial liabilities		(6,003)	(1,472)	5,481	5,481
- other liabilities		19,827	20,258	(46)	(46)
Net cash used in operating activities		**(64,955)**	**(64,839)**	**(79,487)**	**(83,796)**
Cash flows from investing activities					
Injection of cash in subsidiary		(2,000)	-	(4,300)	-
Acquisition of premises and equipment	18	(5,164)	(5,195)	(2,034)	(2,039)
Acquisition of investment properties	15	(637)	(494)	-	-
Proceeds from disposal of investment properties		-	-	65	79
Acquisition of intangible assets	18	(742)	(760)	(490)	(490)
Proceeds from disposal of intangible assets	18	15	33	43	43
Net cash used in investing activities		**(8,528)**	**(6,416)**	**(6,716)**	**(2,407)**
Cash flows from financing activities					
Proceeds from other borrowed funds	34	262,622	262,622	678,868	678,868
Repayment of other borrowed funds	34	(195,944)	(195,944)	(530,118)	(530,118)
Dividends paid	33	(2,989)	(2,989)	(2,545)	(2,545)
Net cash from financing activities		**63,689**	**63,689**	**146,205**	**146,205**

		31 December 2018		31 December 2017	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consolidated**	**Bank Separate**	**Consolidated**
Effect of exchange rate changes on cash and cash equivalents		**489**	**489**	**5,889**	**5,889**
Net increase/(decrease) in cash and cash equivalents		**(9,305)**	**(7,077)**	**65,891**	**65,891**
Cash and cash equivalents at the beginning of the year		**139,577**	**139,577**	**73,686**	**73,686**
Cash and cash equivalents at the end of the year	7	**130,272**	**132,500**	**139,577**	**139,577**

1 Introduction

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 for JSC Basisbank (the "Bank") and its subsidiaries (together the "Group").

The Bank was incorporated and is domiciled in Georgia. Registering body is Krtsanisi_Mtatsminda court and registration number is 4/5-44, Tax code 203841833. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2018 and 2017 the Bank's immediate and ultimate parent company was Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China, and the Bank was ultimately controlled by Mr Mi Enhua.

	% of ownership interest held as at 31 December	
Shareholders	**2018**	**2017**
Xinjiang Hualing Industry & Trade (Group) Co Ltd	92.305%	92.305%
Mr. Mi Zaiqi	6.969%	6.969%
Other minority shareholders	0.726%	0.726%

Principal activity. The Group's principal business activity is commercial and retail banking operations within Georgia. The Bank has operated under a full banking licence issued by the National Bank of Georgia ("NBG") since 1993.

The Bank participates in the state deposit insurance scheme, which was introduced by the Georgian law on "Deposits insurance system" dated 17 May 2017. The Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to GEL 5,000 per individual on occurrence of an insurance case - the liquidation, insolvency or bankruptcy process in accordance with the law of Georgia on Commercial Banks.

The Bank has 22 (2017: 22) branches in Georgia. The Group had 463 employees at 31 December 2018 (2017: 399 employees).

Registered address and place of business. The Bank's registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise stated.

Subsidiaries. These consolidated financial statements include the following principal subsidiaries:

			Ownership % at 31 December	
Name	**Country of incorporation**	**Principal activities**	**2018**	**2017**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
Hualing Insurance JSC	Georgia	Insurance	100%	100%
BHL Leasing JSC	Georgia	Leasing	100%	100%

Basis Asset Management – Holding LLC. The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 404417984. The Company is Limited Liability Company and was set up in accordance with Georgian regulations. The company's principal business activity is holding property for lease.

Hualing Insurance JSC. JSC "Hualing Insurance" was incorporated in December 2017 and is domiciled in Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. Registering body is Revenue Service of Georgia, Tax code 406232214.

The Company's principal business activity is insurance business operations within Georgia. The Company has a life and non-life licenses issued by the Insurance State Supervision Service of Georgia since 27 December 2017.

1 Introduction (Continued)

BHL Leasing JSC.The Company was incorporated and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406233534. The Company is Limited Liability Company and was set up in accordance with Georgian regulations.

The Bank establish leasing subsidiary in December 2018 to offer the customers financial leasing products in:

- Vehicle leasing
- Leasing of fixed assets (equipment, technic etc.)
- Preferential agricultural leasing (APMA)
- Leasing provided under the program “Produce in Georgia”
- Sale-and-leaseback

Abbreviations. A glossary of various abbreviations used in this document is included in Note 43.

2 Operating Environment of the Group

The Group’s operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The consolidated and seprate financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

For the purpose of measurement of expected credit losses (“ECL”) the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 35 provides more information of how the Group incorporated forward-looking information in the ECL models.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 5 and 35.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

3 Summary of Significant Accounting Policies (Continued)

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Investments in subsidiaries. Investments in sunsidiaries are accounted for under the cost method in the separate financial statements of the Bank. When there is objective evidence that the carrying amount of the investment in subsidiary has impaired the impairment loss is calculated as a difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use. An impairment loss recognised in prior periods can be reversed only if there has been a change in the estimates used to determine the investment’s recoverable amount since the last impairment loss was recognised.

Insurance contracts. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance receivables. Insurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the profit or loss.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Disposals of subsidiaries. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Financial instruments – key measurement terms. *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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 39.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest

3 Summary of Significant Accounting Policies (Continued)

rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Group in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability

3 Summary of Significant Accounting Policies (Continued)

weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated and separate statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated and separate statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 35 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 35. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

As an exception, for certain financial instruments, such as credit cards and overdrafts, that may include both a loan and an undrawn commitment component, the Group applies simplified methodology to measure expected credit losses over the expected lifetime basis. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a de-recognition event. Indicators that there is no reasonable expectation of recovery include days past due over 180 days and non-existence of collateral as of write off day. The bank will also write off those loans, which were collateralized, but the execution process on overdue liability is finalized and all existing collaterals have been sold on auctions or repossessed. The remaining unsecured liability will be written off, even if there is no overdue portion of the liability at the moment of write off. Based on expert recommendation, the Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery, or the expected recovery is insignificant compared to the remaining liability.

Financial assets – de-recognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, aggregation of two or more financial assets into one financial asset or any other type of consolidation of financial assets, financial assets with no predetermined cash flows are replaced with schedule or vice-versa, when the rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), change in the currency

3 Summary of Significant Accounting Policies (Continued)

denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change substantially, the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – de-recognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Insurance contract liabilities. Insurance contract liabilities include the provision for unearned premiums, provisions for claims and unexpired risk, and payables to reinsurance companies. The provision for unearned premiums is recognized when contracts are entered into and premiums are charged, and is brought to statement of profit and loss as insurance income over the term of the contract. Claims provisions contain provisions for reported claims, provisions for incurred but not reported claims, provisions for costs of processing claims. Provisions for reported claims are determined by individual assessment. Actuarial methods are applied upon determining provisions for the costs of processing claims and for incurred but unreported claims. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiration date of each insurance policy. The Group reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in expected claims. The differences between the unearned premium provision, claims provisions and the expected claims are recognized in the profit or loss by setting up a provision for premium deficiency.

3 Summary of Significant Accounting Policies (Continued)

Payables to reinsurance companies are recognised on an accruals basis and measured at amortised cost.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements and reverse sale and repurchase agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the NBG. Mandatory cash balances with the NBG are carried at AC and represent interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated and separate statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

3 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 35 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently premeasured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required, except for premises, which are stated at revalued amounts as described below.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. If there is no market based evidence of fair value, fair value is estimated using an income approach. Management has updated the carrying value of land and buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5
Leasehold improvements	1 to 7
Motor vehicles	5
Other	10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

3 Summary of Significant Accounting Policies (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 10 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within other operating income in profit or loss for the year.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale (or disposal groups). Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at AC. If the Group purchases its own debt, the liability is removed from the consolidated and separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

The Group also enters into offsetting loans with its counterparty banks to exchange currencies. Such loans, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated and separate financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated and separate financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

3 Summary of Significant Accounting Policies (Continued)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Interest income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Such income includes recurring fees for account maintenance, account servicing fees etc. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Net insurance revenues. Net Insurance premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the period, and exclude any sales-based taxes or duties.

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

3 Summary of Significant Accounting Policies (Continued)

Net insurance claims. Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Sales and purchases of foreign currencies and currency conversion. The Group sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Group, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Group rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of Georgia, Georgian Lari ("GEL").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBG at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBG, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation.

At 31 December 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6766 (2017: USD 1 = GEL 2.5922), EUR 1 = GEL 3.0701 (2017: EUR 1 = GEL 3.1044).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions.

3 Summary of Significant Accounting Policies (Continued)

It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 35 for analysis of financial instruments by expected maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 35.

	31 December 2018			**31 December 2017**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
In thousands of Georgian Lari	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Cash and cash equivalents	132,500	-	132,500	139,577	-	139,577
Mandatory cash balances with the NBG	170,443	-	170,443	130,824	-	130,824
Due from other banks	-	-	-	15,094	-	15,094
Investments in debt securities	85,727	89,963	175,690	-	-	-
Investments in equity securities	-	63	63	-	-	-
Loans and advances to customers	305,268	595,535	900,803	325,386	432,488	757,874
Available-for-sale investment securities	-	-	-	-	63	63
Bonds carried at amortized cost	-	-	-	96,172	47,731	143,903
Investment properties	-	1,572	1,572	-	1,078	1,078
Current income tax prepayment	5	-	5	217	-	217
Other financial assets	4,932	134	5,066	1,407	22	1,429
Other assets	1,339	16,110	17,449	367	16,490	16,857
Intangible assets	-	1,382	1,382	-	861	861
Premises and equipment	-	26,457	26,457	-	21,894	21,894
Non-current assets held for sale	4,249	111	4,360	1,928	-	1,928
TOTAL ASSETS	**704,463**	**731,327**	**1,435,790**	**710,972**	**520,627**	**1,231,599**
LIABILITIES						
Due to other banks	100,196	-	100,196	59,982	-	59,982
Customer accounts	665,093	62,328	727,421	631,911	45,909	677,820
Other borrowed funds	194,943	150,839	345,782	206,091	64,189	270,280
Other financial liabilities	6,353	-	6,353	7,674	-	7,674
Current income tax liability	1,647	-	1,647	-	-	-
Deferred income tax liability	-	1,671	1,671	-	152	152
Provisions for liabilities and charges	374	-	374	346	-	346
Other liabilities	2,812	-	2,812	1,854	-	1,854
TOTAL LIABILITIES	**971,418**	**214,838**	**1,186,256**	**907,858**	**110,250**	**1,018,108**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated and separate financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated and separate financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 35. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Group used supportable forward looking information for measurement of ECL, in particular macro-economic forecasting model which is published by the National Bank of Georgia. Three scenarios are modelled: Baseline, Upside and Downside. According to NBG recommendation, the Group assigns 50% weight to Baseline Scenario, 25% to Upside and 25% to Downside scenarios. The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2018:

Variable	Scenario	Assigned weight	Assumption for: 2019	2020	2021
CPI Inflation	Base	50%	2.90%	3.00%	3.00%
	Upside	25%	3.40%	3.20%	3.00%
	Downside	25%	4.50%	4.00%	3.00%
Real GDP Growth rate	Base	50%	5.00%	5.00%	5.00%
	Upside	25%	6.00%	5.50%	5.00%
	Downside	25%	2.00%	2.50%	3.50%
Nominal Effective Exchange Rate, NEER (2010=100)	Base	50%	125.45	125.45	125.45
	Upside	25%	132.99	136.98	136.98
	Downside	25%	116.65	110.82	113.06
Real Estate price index in GEL (2017=100)	Base	50%	102.90	103.00	103.00
	Upside	25%	103.40	103.20	103.00
	Downside	25%	95.00	100.00	105.00
Country Sovereign risk premium in%	Base	50%	2.60	2.60	2.60
	Upside	25%	2.60	2.60	2.60
	Downside	25%	4.10	3.60	2.60

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The assumptions and assigned weights were as follows at 1 January 2018:

Variable	Scenario	Assigned weight	Assumption for: 2018	2019	2020
CPI Inflation	Base	50%	3.50%	3.00%	3.00%
	Upside	25%	2.50%	2.50%	2.70%
	Downside	25%	4.50%	4.30%	3.80%
Real GDP Growth rate	Base	50%	4.50%	4.80%	5.00%
	Upside	25%	5.50%	6.00%	5.70%
	Downside	25%	3.00%	2.00%	3.00%
Nominal Effective Exchange Rate, NEER (2010=100)	Base	50%	107.00	108.00	109.00
	Upside	25%	110.00	112.00	113.00
	Downside	25%	101.00	98.00	99.00
Real Estate price index in GEL (2017=100)	Base	50%	103.50	106.60	109.80
	Upside	25%	101.40	103.60	107.70
	Downside	25%	104.90	109.80	112.00
Country Sovereign risk premium in %	Base	50%	2.60	2.60	2.60
	Upside	25%	2.00	2.00	2.00
	Downside	25%	3.50	4.00	4.00

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by GEL 63 thousand at 31 December 2018 (1 January 2018: by GEL 17 thousand).

A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 34 thousand at 31 December 2018 (1 January 2018: by GEL 46 thousand).

A 10% increase in PD estimates at 31 December 2018 would result in an increase in total expected credit loss allowances of GEL 394 thousand (1 January 2018: by GEL 448 thousand).

A 10% decrease in PD estimates at 31 December 2018 would result in decrease in total expected credit loss allowances of 418 thousand (1 January 2018: by GEL 471 thousand).

A 10% increase or decrease in LGD estimates at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 565 thousand (1 January 2018: increase or decrease by GEL 310 thousand).

The Bank applies LGD floor to estimated LGD value. A 10% increase or decrease in LGD floor value at 31 December 2018 would result in an increase or decrease in total expected credit loss allowances of GEL 300 thousand (1 January 2018: increase or decrease by GEL 330 thousand).

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 35.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by GEL 1,577 thousand as of 31 December 2018 (1 January 2018: higher by GEL 832 thousand).

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Group assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: loans being past due over 180 days, liquidation or bankruptcy proceedings, enforcement activities were completed, and there is no collateral.

5 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments". The Group adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, *Financial Instruments: Disclosures*, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 42.

The following table reconciles the carrying amounts of each class of financial assets as for the Bank and the Group previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018. The separate impact of IFRS 9 adoption on the Group's entities other than bank was not material and was not recognised as at 1 January 2018.

In thousands of Georgian Lari	**Measurement category**		**Carrying value under IAS 39 - 31 December 2017**	**Effect of adopting IFRS 9 Remeasurement ECL**	**Carrying value under IFRS 9 - 1 January 2018**
	IAS 39	**IFRS 9**			
Cash and cash equivalents	L&R	AC	**139,577**	**(114)**	**139,463**
Mandatory cash balances with the National Bank of Georgia			**130,824**	**-**	**130,824**
Investments in debt securities					
- Georgian government treasury bonds	L&R	AC	87,747	(169)	87,578
- Georgian government treasury bills	L&R	AC	56,156	(89)	56,067
Total investments in debt securities			**143,903**	**(258)**	**143,645**
Investments in equity securities					
- **Corporate shares**	**AFS**	**FVOCI**	**63**	**-**	**63**
Due from other banks					
- Placements with other banks with original maturities of more than three months	L&R	AC	**15,094**	**(48)**	**15,046**
Loans and advances to customers					
- *Loans to corporate customers*					
- Standard lending	L&R	AC	**603,917**	**647**	**604,564**
- *Loans to individuals*					
- Mortgage loans	L&R	AC	99,763	409	100,172
- Consumer loans	L&R	AC	49,204	(136)	49,068
- Credit cards	L&R	AC	4,990	(28)	4,962
Total loans and advances to customers			**757,874**	**892**	**758,766**
Other financial assets					
- Other financial assets	L&R	AC	**1,429**	-	**1,429**
Total financial assets			**1,188,764**	**472**	**1,189,236**

Increase of provision in credit related commitments and financial guarantees under ECL model is GEL 235 thousand.

5 Adoption of New or Revised Standards and Interpretations (Continued)

(a) Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 7 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The credit loss allowance for cash and cash equivalents balances amounted GEL 114 thousand.

(b) Due from other banks

All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(c) Investments in debt securities

*Reclassification from retired categories with no change in measurement***.** The Group has assessed that the appropriate business model for its all investments in debt securities is held to collect. The debt instruments classified as Loans & Receivables have been reclassified to the new AC measurement category under IFRS 9, as their previous category under IAS 39 was retired, with no changes to their measurement basis.

(d) Investments in equity securities

The Group has elected to irrevocably designate some strategic investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of.

IFRS 9 does not provide an exemption to measure investments in unquoted equity securities at cost. The Group re-measured all such investments at fair value on adoption of IFRS 9 and designated as at FVOCI. The changes in fair value of FVOCI securities represents an insignificant amount, therefore the Group did not reflect the remeasurement effect on adoption of IFRS 9.

(e) Loans and advances to customers

The Bank has assessed loans and advances to customer with respect to the SPPI criteria. The SPPI test considers facts and circumstances as of the date of initial recognition of each financial asset subject to SPPI test. All loans issued by the Bank outstanding as at 1 January 2018 met the SPPI test and were measured at AC.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

In thousand or Georgian Lari	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect Remeasu-rement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurement category			
- Cash and Cash equivalents	-	114	114
- Due from other banks	-	48	48
- Investments in debt securities	-	258	258
- Loans and advances to customers	16,377	(892)	15,485
Financial guarantees and credit lines	168	235	403

At 31 December 2017, all of the Group's financial liabilities were carried at AC. There were no changes to the classification and measurement of financial liabilities at 1 January 2018.

5 Adoption of New or Revised Standards and Interpretations (Continued)

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

In thousands of Georgian Lari	Share capital	Share premium	Share-based Payments	Revaluation reserve for AFS securities	Revaluation reserve for premises	Retained earnings	Total equity
Amounts at 31 December 2017 prior to adoption of IFRS 9	**16,057**	**74,923**	**851**	**154**	**8,233**	**113,273**	**213,491**
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost and credit related commitments	**-**	**-**	**-**	**-**	**-**	**202**	**202**
Other effects	**-**	**-**	**-**	**(154)**	**-**	**154**	**-**
At 1 January 2018 (under IFRS 9)	**16,057**	**74,923**	**851**	**-**	**8,233**	**113,629**	**213,693**

Amendments to IFRS 9 - “Prepayment Features with Negative Compensation” (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2019). The amendments were early adopted by the Group with the date of initial application of 1 January 2018. The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. The Group is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. This clarification has no impact on carrying value of the Group’s financial liabilities carried at amortised cost at 1 January 2018.

Adoption of IFRS 15 “Revenue from Contracts with Customers” (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 “Revenue from Contracts with Customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Group has adopted IFRS 15, *Revenue from Contracts with Customers*, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Group.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 - “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

5 Adoption of New or Revised Standards and Interpretations (Continued)

Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of GEL 2,541 against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 37 to this liability is as follows:

In thousands of Georgian Lari	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 37)	327
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	2,602
- Effect of discounting to present value	(388)
Total lease liabilities	**2,541**

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to the insurance contracts and the performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated and separate financial statements or are not applicable to the Group or the Bank.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

7 Cash and Cash Equivalents

In thousands of Georgian Lari	**2018**	**2017**
Cash on hand	32,099	30,341
Cash balances with the NBG (other than mandatory reserve deposits)	31,812	27,903
Correspondent accounts and overnight placements with other banks	68,699	81,333
Less credit loss allowance	(110)	-
Total cash and cash equivalents	**132,500**	**139,577**

The cash and cash equivalent balances under the bank's separate financial statement as at 31 December 2018 amount GEL 130,272 (2017: GEL 139,577 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 35 for the description of the Group's credit risk grading system.

In thousands of Georgian Lari	**Balances with the NBG, excluding mandatory reserves**	**Correspondent accounts and overnight placements**	**Total**
- Excellent	31,750	63,528	95,278
- Good	-	8	8
- Satisfactory	-	2,946	2,946
- Special monitoring		59	59
- Unrated		2,109	2,109
Total cash and cash equivalents, excluding cash on hand	**31,750**	**68,650**	**100,400**

As at 31 December 2018 there were two placement with unrated Georgian banks with aggregate amount of GEL 2,109 thousand.

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances as at 31 December 2018 amounts GEL 110 thousand (GEL 114 thousand on 1 January 2018). Refer to Note 35 for the ECL measurement approach.

The credit quality of cash and cash equivalents balances at 31 December 2017, was as follows:

In thousands of Georgian Lari	**Balances with the NBG, excluding mandatory reserves**	**Correspondent accounts and overnight placements**	**Placements with other banks**	**Total**
Neither past due nor impaired				
- National Bank of Georgia	27,903	-	-	27,903
- A- to A+ rated	-	60,200	-	60,200
- Lower than A- rated	-	20,975		20,975
- Unrated	-	158	-	158
Total cash and cash equivalents, excluding cash on hand	**27,903**	**81,333**	**-**	**109,236**

The credit ratings in the above table are based on Fitch ratings. As at 31 December 2017 there was one placement with unrated Georgian bank with aggregate amount of GEL 98 thousand, one unrated OECD bank with aggregate amount of GEL 59 thousand.

7 Cash and Cash Equivalents (Continued)

At 31 December 2018 the Group had one counterparty bank (2017: one bank) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 60,925 thousand (2017: GEL 44,387 thousand) or 46% of the cash and cash equivalents (2017: 32%).

Interest rate analysis of cash and cash equivalents is disclosed in Note 35. Information on related party balances is disclosed in Note 41. The cash balances with the NBG (other than mandatory reserve deposits) represent balances with the NBG related to settlement activity and were available for withdrawal at year end.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, whose availability is restricted and the amount of which depends on the level of funds attracted by the financial institutions.

In 2018, Fitch Ratings re-affirmed government of Georgia’s short-term sovereign credit rating of “B” and long-term credit rating of “BB-“.For the purpose of ECL measurement Mandatory cash balances with the NBG are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognise any credit loss allowance for Mandatory cash balances with the NBG. Refer to Note 35 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**2018**	**2017**
Placements with other banks with original maturities of more than three months	-	15,094
Less credit loss allowance	-	-
Total due from other banks	**-**	**15,094**

At 31 December 2017 the Group had balances with one counterparty bank – Bank Credo, Georgia. The ECL for these balances as at 31 December 2018 was nil (GEL 48 thousand on 1 January 2018). Refer to Note 35 for the ECL measurement approach.

Refer to Note 39 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

10 Investments in Debt Securities

In thousands of Georgian Lari	**2018**
Debt securities at AC	175,690
Total investments in debt securities	**175,690**

The table below discloses investments in debt securities at 31 December 2018 by measurement categories and classes:

In thousands of Georgian Lari	**Debt securities at AC**	**Total**
Georgian government treasury bonds	106,314	106,314
Georgian government treasury bills	66,969	66,969
NBG certificates of deposit	2,732	2,732
Total investments in debt securities at 31 December 2018 (gross carrying value)	176,015	176,015
Credit loss allowance	(325)	(325)
Total investments in debt securities at 31 December 2018 (carrying value)	**175,690**	**175,690**

10 Investments in Debt Securities (Continued)

(a) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 35 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bonds		
- Good	106,314	106,314
Gross carrying amount	106,314	106,314
Credit loss allowance	(205)	(205)
Carrying amount	**106,109**	**106,109**
Georgian government treasury bills		
- Good	66,969	66,969
Gross carrying amount	**66,969**	**66,969**
Credit loss allowance	(119)	(119)
Carrying amount	**66,850**	**66,850**
NBG certificates of deposit		
- Good	2,732	2,732
Gross carrying amount	**2,732**	**2,732**
Credit loss allowance	(1)	(1)
Carrying amount	**2,731**	**2,731**

The debt securities at AC are not collateralised.

At 31 December 2018 debt securities at AC with a carrying value of GEL 40,427 thousand have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 20 and 22. The counterparty is not allowed to sell further or repledge the investments.

10 Investments in Debt Securities (Continued)

The following table explains the changes in the credit loss allowance and gross carrying amount for debt securities at AC between the beginning and the end of the annual period:

	Credit loss allowance		**Gross carrying amount**	
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bonds				
At 1 January 2018	**(169)**	**(169)**	**87,748**	**87,748**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(113)	(113)	58,004	58,004
Derecognised during the period	77	77	(39,566)	(39,566)
Changes in accrued interest	-	-	128	128
Total movements with impact on credit loss allowance charge for the period	**(36)**	**(36)**	**18,566**	**18,566**
At 31 December 2018	**(205)**	**(205)**	**106,314**	**106,314**

Movements in the credit loss allowance and in the gross amortised cost amount of Georgian Government treasury bills carried at AC were as follows.

	Credit loss allowance		**Gross carrying amount**	
In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bills				
At 1 January 2018	**(89)**	**(89)**	**56,156**	**56,156**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(119)	(119)	86,692	86,692
Derecognised during the period	89	89	(80,841)	(80,841)
Changes in accrued interest			4,962	4,962
Total movements with impact on credit loss allowance charge for the period	**(30)**	**(30)**	**10,813**	**10,813**
At 31 December 2018	**(119)**	**(119)**	**66,969**	**66,969**

10 Investments in Debt Securities (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of NBG certificated of deposit carried at AC were as follows.

In thousands of Georgian Lari	**Credit loss allowance**		**Gross carrying amount**	
	Stage 1 (12-months ECL)	**Total**	**Stage 1 (12-months ECL)**	**Total**
NBG certificates of deposit				
At 1 January 2018	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
Transfers:				
New originated or purchased	(1)	(1)	6,834	6,834
Derecognised during the period	-	-	(4,177)	(4,177)
Changes in accrued interest	-	-	75	75
Total movements with impact on credit loss allowance charge for the period	**(1)**	**(1)**	**2,732**	**2,732**
At 31 December 2018	(1)	(1)	**2,732**	**2,732**

11 Investments in Equity Securities

In thousands of Georgian Lari	**2018**
Equity securities at FVOCI	63
Total investments in equity securities	**63**

The table below discloses investments in equity securities at 31 December 2018 by measurement categories and classes:

In thousands of Georgian Lari	**Equity securities at FVOCI**	**Total**
Corporate shares	63	63
Total investments in equity securities at 31 December 2018		

(a) Investments in equity securities at FVOCI

At 1 January 2018, the Group designated investments disclosed in the following table as equity securities at FVOCI. In 2017, these investments were classified as AFS. Refer to Note 13. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

In thousands of Georgian Lari	**Fair value at 31 December 2018**
Georgian stock market	6
United Clearing center	57
Total investments in equity securities at FVOCI	63

At 31 December 2018 securities at FVOCI include equity securities with a carrying value of GEL 63 thousand which are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee. Refer to Note 39.

12 Loans and Advances to Customers

In thousands of Georgian Lari	31 December 2018	31 December 2017
Gross carrying amount of loans and advances to customers at AC	916,451	774,251
Less credit loss allowance	(15,648)	(16,377)
Total carrying amount of loans and advances to customers at AC	900,803	757,874
Total loans and advances to customers	**900,803**	**757,874**

As at 31 December 2018 the Group identified 100% of portfolio of loans and advances to customers to meet the SPPI requirement for AC classification under IFRS 9.

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

	31 December 2018			31 December 2017		
In thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Loans to Legal entities	**694,896**	**(10,977)**	**683,918**	**616,832**	**(12,915)**	**603,917**
Standard lending	694,896	(10,977)	683,918	616,832	(12,915)	603,917
Loans to individuals	**221,555**	**(4,670)**	**216,885**	**157,419**	**(3,462)**	**153,957**
Mortgage loans	137,685	(2,705)	134,980	102,197	(2,434)	99,763
Consumer loans	79,004	(1,758)	77,246	50,142	(937)	49,204
Credit cards	4,866	(207)	4,659	5,080	(91)	4,990
Total loans and advances to customers at AC	**916,451**	**(15,647)**	**900,803**	**774,251**	**(16,377)**	**757,874**

More detailed explanation of classes of standard loans to legal entities is provided below:

Loans issued to large commercial entities under the standard terms, mainly for working capital financing and investment projects; and

Loans to SME – loans issued to small and medium-sized enterprises, where the Group defines such as loans issued to a client up to 1 million USD;

12 Loans and Advances to Customers (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Standard lending								
At 1 January 2018	**1,796**	**363**	**10,109**	**12,268**	**514,783**	**61,996**	**40,053**	**616,832**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(70)	130	-	60	(27,549)	27,549	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(33)	(30)	1,131	1,068	(8,881)	(817)	9,698	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	18	(26)	(2)	(10)	6,309	(6,286)	(23)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	1	(26)	(25)	-	251	(251)	-
New originated or purchased	1,307	-	-	1,307	447,514	-	-	447,514
Payments	(1,016)	(120)	(3,104)	(4,240)	(345,531)	(24,861)	(20,400)	(390,792)
Other movements	67	(17)	485	535	3,433	655	132	4,220
Total movements with impact on credit loss allowance charge for the period	**273**	**(62)**	**(1,516)**	**(1,305)**	**75,295**	**(3,509)**	**(10,844)**	**60,942**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(209)	(209)	-	-	(209)	(209)
FX and other movements	20	7	196	223	15,643	1,140	549	17,332
At 31 December 2018	**2,089**	**308**	**8,580**	**10,977**	**605,721**	**59,627**	**29,549**	**694,897**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	**Credit loss allowance**				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans	**277**	**604**	**1,145**	**2,026**	**66,051**	**30,490**	**5,656**	**102,197**
At 1 January 2018								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(62)	387	-	325	(23,853)	23,853	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(121)	(27)	1,374	1,226	(3,055)	(1,673)	4,728	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	15	(71)	(100)	(156)	4,378	(3,929)	(449)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	5	(128)	(123)	-	587	(587)	-
New originated or purchased	110	-	-	110	74,559	-	-	74,559
Payments	(88)	(214)	(424)	(726)	(27,978)	(11,816)	(2,430)	(42,224)
Other movements	82	(51)	68	99	183	57	23	263
Total movements with impact on credit loss allowance charge for the period	**(64)**	**29**	**790**	**755**	**24,234**	**7,079**	**1,285**	**32,598**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(109)	(109)	-	-	(109)	(109)
FX and other movements	4	7	21	32	2,500	411	88	2,999
At 31 December 2018	**217**	**640**	**1,847**	**2,704**	**92,785**	**37,980**	**6,920**	**137,685**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 1 January 2018	**332**	**25**	**717**	**1,074**	**45,709**	**1,786**	**2,647**	**50,142**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(89)	130	-	41	(10,964)	10,964	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(282)	(59)	1,287	946	(3,074)	(431)	3,505	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	(1)	(2)	(3)	110	(66)	(44)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	1	(19)	(18)	-	125	(125)	-
New originated or purchased	414	-	-	414	69,005	-	-	69,005
Payments	(199)	(11)	(384)	(594)	(37,554)	(917)	(1,593)	(40,064)
Other movements	221	66	71	358	6	55	14	75
Total movements with impact on credit loss allowance charge for the period	**65**	**126**	**953**	**1,144**	**17,529**	**9,730**	**1,757**	**29,016**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(464)	(464)	-	-	(464)	(464)
FX and other movements	1	-	4	5	274	16	20	310
At 31 December 2018	**398**	**151**	**1,210**	**1,759**	**63,512**	**11,532**	**3,960**	**79,004**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 1 January 2018	**-**	**47**	**71**	**118**	**-**	**4,879**	**201**	**5,080**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	328	328	-	(384)	384	-
Payments*	-	(22)	(33)	(55)	-	(2,199)	(92)	(2,291)
Other movements*	-	15	58	73	-	2,327	1	2,328
Total movements with impact on credit loss allowance charge for the period	**-**	**(7)**	**353**	**346**	**-**	**(256)**	**293**	**37**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(257)	(257)	-	-	(257)	(257)
FX and other movements	-	-	-	-	-	6	-	6
At 31 December 2018	**-**	**40**	**167**	**207**	**-**	**4,629**	**237**	**4,866**

*Net decrease in credit cards exposures during the period is disclosed in payments and net increase is in other movements.

As at 31 December 2018 other movements include untilization of credit lines from borrowers with respective stage category loans. Movements in the provision for loan impairment of loans during 2017 of are as follows:

In thousands of Georgian Lari	**Corporate loans**	**Mortgage loans**	**Consumer loans**	**Credit cards**	**Total**
Provision for loan impairment at 1 January 2017	**10,170**	**3,470**	**975**	**207**	**14,822**
(Recovery of)/provision for impairment during the year*	2,853	(1,045)	422	260	2,490
Amounts written off during the year as uncollectible	(168)	-	(390)	(377)	(935)
Provision for loan impairment at 31 December 2017	**12,855**	**2,425**	**1,007**	**90**	**16,377**

*The provision for impairment during 2017 differs from the amount presented in profit or loss for the year due to GEL 514 thousand, recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

12 Loans and Advances to Customers (Continued)

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 35. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

The following table contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans.

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2018:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Standard lending				
- Excellent	58,718	-	-	58,718
- Good	547,001	-	-	547,001
- Satisfactory	-	57,456	-	57,456
- Special monitoring	-	2,171	-	2,171
- Default	-	-	29,549	29,549
Gross carrying amount	**605,719**	**59,627**	**29,549**	**694,895**
Credit loss allowance	(2,088)	(309)	(8,581)	(10,978)
Carrying amount	**603,632**	**59,318**	**20,968**	**683,918**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2018:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Mortgage loans				
- Excellent	1,743	-	-	1,743
- Good	91,041	-	-	91,041
- Satisfactory	-	36,812	-	36,812
- Special monitoring	-	1,169	-	1,169
- Default	-	-	6,920	6,920
Gross carrying amount	**92,784**	**37,981**	**6,920**	**137,685**
Credit loss allowance	(218)	(640)	(1,847)	(2,705)
Carrying amount	**92,566**	**37,341**	**5,073**	**134,980**
Consumer loans				
- Excellent	4,437	-	-	4,437
- Good	59,075	-	-	59,075
- Satisfactory	-	10,827	-	10,827
- Special monitoring	-	705	-	705
- Default	-	-	3,960	3,960
Gross carrying amount	**63,512**	**11,532**	**3,960**	**79,004**
Credit loss allowance	(398)	(151)	(1,209)	(1,758)
Carrying amount	**63,114**	**11,381**	**2,751**	**77,246**
Credit cards				
- Satisfactory	-	4,629	-	4,629
- Default	-	-	237	237
Gross carrying amount	**-**	**4,629**	**237**	**4,866**
Credit loss allowance	-	(40)	(167)	(207)
Carrying amount	**-**	**4,589**	**70**	**4,659**

For description of the credit risk grading used in the tables above refer to Note 35.

12 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2017 is disclosed as follows:

In thousands of Georgian Lari	Corporate loans	Mortgage loans	Consumer loans	Credit Cards	Total
Neither past due nor impaired					
- Large borrowers with credit history over two years	175,002	-	-	-	175,002
- Large new borrowers	269,182	-	-	-	269,182
- Loans to medium size entities	59,836	-	-	-	59,836
- Loans to small entities	866	4	3	134	1,007
- Loans to individuals with credit limit over GEL 100 thousand	69,241	49,420	3,499	361	122,521
- Loans to individuals with credit limit below GEL 100 thousand	11,630	44,248	42,271	4,382	102,531
Total neither past due nor impaired	**585,757**	**93,672**	**45,773**	**4,877**	**730,079**
Past due but not impaired					
- less than 30 days overdue	2,626	1,879	1,295	1	5,801
- 30 to 90 days overdue	-	126	-	-	126
Total past due but not impaired	**2,626**	**2,005**	**1,295**	**1**	**5,927**
Loans individually determined to be impaired (gross)					
- Not overdue	11,476	2,521	693	53	14,743
- less than 30 days overdue	58	704	49	55	866
- 30 to 90 days overdue	4,979	1,037	489	58	6,563
- 91 to 180 days overdue	1,356	775	534	35	2,700
- 181 to 360 days overdue	6,937	692	273	-	7,902
- over 360 days overdue	3,644	791	1,036	-	5,471
Total impaired loans (gross)	28,450	6,520	3,074	201	38,245
Less impairment provisions	**(12,916)**	**(2,434)**	**(937)**	**(90)**	**(16,377)**
Total loans and advances to customers	**603,917**	**99,763**	**49,205**	**4,989**	**757,874**

12 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2018		2017	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	221,555	25%	157,419	21%
Hotels & Restaurants	86,990	10%	73,456	9%
Trade	85,697	10%	50,658	7%
Real Estate Management	82,680	9%	63,889	8%
Service	71,358	8%	75,993	10%
Financial Institutions	63,182	7%	43,593	6%
Health Care	61,635	7%	55,784	7%
Production & Manufacturing	46,560	5%	56,430	7%
Agricultural	45,185	5%	38,468	5%
Construction & Production of Construction materials	40,709	4%	24,040	3%
Energy	31,022	3%	52,598	7%
Real Estate Development	22,069	2%	48,960	6%
Telecommunication	13,424	1%	-	0%
Wine production	12,183	1%	18,128	2%
Other	32,202	4%	14,835	2%
Total loans and advances to customers carried at AC	**916,451**	**100%**	**774,251**	**100%**

At 31 December 2018 the Group had 10 borrowers' groups (2017: 12 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 195,258 thousand (2017: GEL 234,440 thousand) or 21% of the gross loan portfolio (2017: 30%).

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. Description of collateral held for loans carried at amortised cost is as follows at 31 December 2018:

In thousands of Georgian Lari	**Standard lending**	**Mortgage loans**	**Consumer loans**	**Credit cards**	**Total**
Loans collateralised by:					
- real estate	509,888	135,800	31,972	11	677,671
- cash deposits	76,432	153	4,338	-	80,923
- Transport and equipment	19,238	42	241	-	19,521
- other assets	29,252	268	4	20	29,544
Total	634,810	136,263	36,555	31	807,659
Unsecured exposures	60,086	1,423	42,449	4,834	108,792
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**694,896**	**137,686**	**79,004**	**4,865**	**916,451**

12 Loans and Advances to Customers (Continued)

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2017:

In thousands of Georgian Lari	**Corporate loans**	**Mortgage loans**	**Consumer loans**	**Credit cards**	**Total**
Loans collateralised by:					
- real estate	454,484	98,880	18,003	152	571,519
- cash deposits	95,203	114	1,229	-	96,546
- Transport and equipment	8,529	-	325	-	8,854
- other assets	26,253	1,483	-	20	27,756
Total	584,469	100,477	19,557	172	704,675
Unsecured exposures	32,363	1,720	30,585	4,908	69,576
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**616,832**	**102,197**	**50,142**	**5,080**	**774,251**

The carrying value of loans was allocated based on the type of collateral taken in following order: cash deposit, real estate, transport and equipment, other assets. Other assets mainly include securities and inventory. Part of mortgage loans issued for purchases of real estate with status of construction in progress is not secured with real estate before completion of legal registration procedures by the construction company. Until completion of these legal procedures the loans are secured by the construction company’s guarantee. After completion of the registration procedures, the collateral will be replaced with real estate.

Third party guarantees received in the aggregate amount of GEL 27,432 thousand (2017: GEL 152 thousand) were not considered in the above table.

The disclosure above presents the collateralised loans at the lower of their carrying value or fair value of respective collateral; any loan amount in excess of the fair value of collateral is disclosed within the unsecured exposures.

12 Loans and Advances to Customers (Continued)

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral on credit impaired assets at 31 December 2018 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Standard lending	29,037	90,588	512	332
Loans to individuals carried at AC				
Mortgage loans	6,781	17,583	139	27
Consumer loans	2,939	13,467	1,021	16
Credit cards	11	17	226	-

The effect of collateral at 31 December 2017 is presented for all loans, whether impaired or not, as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Georgian Lari	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers				
Standard lending	531,979	1,389,931	85,507	52,926
Loans to individuals				
Mortgage loans	97,975	286,999	3,498	1,996
Consumer loans	19,355	97,161	30,857	272
Credit cards	173	865	4,908	-

The Group obtains collateral valuation at the time of granting loans and annually re-evaluates real estate properties pledged for the loans which are included in top 100 borrower group list by carrying amount as at reporting date. Apart from top-100 borrower groups, for the loans with carrying amount more than GEL 100 thousand, the Group requests re-evaluation of the pledged real-estate collaterals if a new loan is disbursed under the pledge of the given collateral or in case of restructuring of the given commitment in case the last valuation is more than 1 year ago. The Bank assessed the possible impact of the old valuations on the assessment of ECL, and the effect was found immaterial for 2018. Where there are indications that the carrying value of the loan might exceed fair value of collateral, the management discretionally obtains valuations for collateral for the affected properties. The values of collateral considered in this disclosure are market values of collaterals.

Refer to Note 39 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

12 Loans and Advances to Customers (Continued)

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2018:

In thousands of Georgian Lari	**31 December 2018**
Loans to legal entities	
Standard lending	826
Loans to individuals	
Mortgage loans	118
Consumer loans	1,676
Total	**2,620**

13 Investment Securities AFS (*For comparatives only)*

In thousands of Georgian Lari	**2017**
Corporate shares (not quoted)	63
Total investment securities AFS	**63**

At 31 December 2017 investment securities AFS include equity securities with a carrying value of GEL 63 thousand which are not publicly traded. Management could not reliably estimate the fair value of the Group's investment in s securities AFS. The investments are carried at a cost of GEL 63 thousand at 31 December 2017.

Interest rate analysis of investment securities AFS is disclosed in Note 35. Information on related party debt investment securities available for sale is disclosed in Note 41.

14 Bonds carried at amortized cost (*For comparatives only)*

In thousands of Georgian Lari	**2017**
Georgian government treasury bonds	87,747
Georgian government treasury bills	56,156
Total Bonds carried at amortized cost	**143,903**

All Bonds carried at amortized cost are issued by the Georgian government. At 31 December 2017 Bonds carried at amortized cost with a carrying value of GEL 39,416 thousand have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds. Refer to Notes 20 and 22. The counterparty is not allowed to sell further or repledge the investments.

The movement in Bonds carried at amortized cost is as follows:

In thousands of Georgian Lari	**Note**	**2017**
Gross amount at 1 January		**128,441**
Additions		79,460
Reclassified from Repurchase Receivables		
Redemption		(66,984)
Interest income accrual		10,334
Interest income received		(7,348)
Gross amount at 31 December		**143,903**

As at 31 December 2017 Bonds carried at amortized are not impaired.

Refer to Note 39 for the disclosure of the fair value of each class of investments in debt securities L&R. Interest rate analysis of investments in debt securities is disclosed in Note 35. Information on related party investments in debt securities is disclosed in Note 41.

15 Investment Properties

In thousands of Georgian Lari		2018	2017
Investment properties at 1 January		1,078	1,283
Depreciation		(14)	(14)
Disposals		(400)	(191)
Transfer from other assets		1,117	-
Transfer to held for sales	30	(209)	-
Investment properties at 31 December		**1,572**	**1,078**

As of 31 December 2018 GEL 1,037 thousand of investment property were attributable to the Bank (2017: 400 thousand).

The separate statement of the Bank's investment properties are as follows:

In thousands of Georgian Lari	2018	2017
Investment properties at 1 January	400	591
Disposals	(400)	(191)
Transfer from other assets	1,037	-
Investment properties at 31 December	**1,037**	**400**

As of 31 December 2018, the fair value of investment properties was GEL 3,972 thousand (2017: GEL 1,636 thousand). As of 31 December 2018 the fair value of investment properties attributable to the bank was GEL 3,011 thousand (2017: GEL 430).

The fair value of the Group's investment properties was determined by the independent valuator Kushman & Wakefield, who hold a recognized and relevant professional qualification. In determining the fair values of investment properties, three market comparatives were identified for each property. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property. Refer to Note 30 and 31 for the disclosure of the income and expenses incurred from investment property.

16 Insurance contracts and Other Financial Assets

In thousands of Georgian Lari	Note	2018	2017
Other financial assets at AC			
Receivables for credit card services and money transfers		438	1,061
Restricted Cash		134	130
Accrued interest on other receivables		89	48
Financial leases		89	-
Prepayments for Services		80	205
Other receivables		172	92
Less credit loss allowance		(130)	(107)
Total other financial assets at AC		**872**	**1,429**
Insurance receivables		2,098	-
Reinsurance Assets		2,096	-
Total insurance contracts and other financial assets		**5,066**	**1,429**

Restricted cash represents balance with card payment system Union Pay (UPI) account. The Group does not have the right to use these funds for the purposes of funding of activities.

16 Insurance contracts and Other Financial Assets (Continued)

The table below contains an analysis of the credit risk exposure of insurance contracts and other financial assets at AC. The carrying amount of insurance contracts and other financial assets at AC at 31 December 2018 below also represents the Group's maximum exposure to credit risk on these assets:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Receivables for credit card services and money transfers		
- Excellent	144	144
- Good	295	295
Gross carrying amount	**439**	**439**
Credit loss allowance	(87)	(87)
Carrying amount	**352**	**352**
Restricted Cash		
- Excellent	134	134
Gross carrying amount	**134**	**134**
Credit loss allowance	-	-
Carrying amount	**134**	**134**
Accrued interest on other receivables		
- Good	89	89
Gross carrying amount	**89**	**89**
Credit loss allowance	-	-
Carrying amount	**89**	**89**
Financial leases		
- Good	89	89
Gross carrying amount	**89**	**89**
Credit loss allowance	-	-
Carrying amount	**89**	**89**

16 Insurance contracts and Other Financial Assets (Continued)

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Prepayments for Services		
- Good	80	80
Gross carrying amount	**80**	**80**
Credit loss allowance	-	-
Carrying amount	**80**	**80**
Other receivables		
- Good	172	172
Gross carrying amount	172	172
Credit loss allowance	(43)	(43)
Carrying amount	**129**	**129**
Insurance receivables		
- Good	2,098	2,098
Gross carrying amount	**2,098**	**2,098**
Credit loss allowance	-	-
Carrying amount	**2,098**	**2,098**
Reinsurance Assets		
- Good	**2,096**	**2,096**
Gross carrying amount	**2,096**	**2,096**
Credit loss allowance	-	-
Carrying amount	**2,096**	**2,096**

16 Insurance contracts and Other Financial Assets (Continued)

The following table explains the changes in the gross carrying amount and in the credit loss allowance for other financial assets under simplified ECL model between the beginning and the end of the annual period:

in thousands of Georgian Lari	Gross carrying amount	Credit loss allowance	Total
Balance at 1 January 2018	1,429	-	1,429
New originated or purchased	4,684	(130)	4,554
Financial assets derecognised during the period	(930)	-	(930)
Total credit loss allowance charge in profit or loss for the period		(130)	(130)
FX movements	13	-	13
Balance at 31 December 2018	**5,196**	**(130)**	**5,066**

For the purpose of ECL measurement other financial assets balances are included in Stage 2. The ECL for these balances as at 31 December 2018 amounts GEL 130 thousand (Nil as at 1 January 2018). Refer to Note 35 for the ECL measurement approach.

Refer to Note 39 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 41.

17 Other Assets

In thousands of Georgian Lari	Note	2018	2017
Repossessed collateral		13,916	13,293
Prepayment for assets repossession		1,261	1,553
Input and withholding taxes		922	882
Litigation prepayments		711	589
Prepayments for services		626	518
Other		13	22
Total other assets		**17,449**	**16,857**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future.

As of 31 December 2018 the value of repossessed collateral attributable to the bank was GEL 12,057 thousand (2017: GEL 11,012).

18 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Premises	Office and computer equip-ment	Total premises and equip-ment	Computer software licences	Total
Cost or valuation at 1 January 2017		19,237	8,661	27,898	1,140	29,038
Accumulated depreciation		384	6,466	6,850	608	7,458
Carrying amount at 1 January 2017		**18,853**	**2,195**	**21,048**	**532**	**21,580**
Additions		494	1,545	2,039	490	2,529
Disposals		-	-	-	(43)	(43)
Depreciation						
Depreciation charge	31	386	808	1,194	161	1,355
Disposals		-	-	-	(43)	(43)
Carrying amount at 31 December 2017		**18,961**	**2,932**	**21,893**	**861**	**22,754**
Cost or valuation at 31 December 2017		19,731	10,207	29,938	1,587	31,525
Accumulated depreciation		770	7,274	8,044	726	8,770
Carrying amount at 31 December 2017		**18,961**	**2,933**	**21,894**	**861**	**22,755**
Additions		1,922	3,273	5,195	760	5,955
Transfers		(214)	-	(214)	-	(214)
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property		(1,141)	-	(1,141)	-	(1,141)
Revaluation		1,052	-	1,052	-	1,052
Depreciation						
Depreciation charge	31	375	1,095	1,470	239	1,709
Disposals		-	-	-	(33)	(33)
Elimination of accumulated depreciation upon revaluation of property	26	(1,141)	-	(1,141)	-	(1,141)
Carrying amount at 31 December 2018		21,346	5,111	26,457	1,382	27,839
Cost or valuation at 31 December 2018		21,350	13,480	34,830	2,314	37,144
Accumulated depreciation		4	8,369	8,373	932	9,305
Carrying amount at 31 December 2018		**21,346**	**5,111**	**26,457**	**1,382**	**27,839**

18 Premises, Equipment and Intangible Assets (Continued)

Premises have been revalued at fair value at December 2018. The valuation was carried out by an independent firm of valuers, Georgian Valuation Company LLC who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category.

The input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

At 31 December 2018, the carrying amount of premises would have been GEL 12,903 thousand (2017: GEL 11,265 thousand) had the assets been carried at cost less depreciation. The amount reconciles to the carrying value of the premises as follows:

In thousands of Georgian Lari	**31 December 2018**	**31 December 2017**
Premises at revalued amount in the statement of financial position	21,350	18,961
Revaluation reserve presented in equity, net of tax	9,284	8,233
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(837)	(537)
Premises at cost less accumulated depreciation	**12,903**	**11,265**

19 Non-Current Assets Classified as Held for Sale (or Disposal Groups)

Major classes of non-current assets classified as held for sale (or disposal groups) are as follows:

In thousands of Georgian Lari	**2018**	**2017**
Non-current assets held for sale at 1 January:	1,928	-
Disposals	(485)	-
Transfer from PPE	414	-
Transfer from other assets	2,299	1,928
Transfer from Investment Properties	204	-
Total Non-current assets held for sale (or disposal groups)	**4,360**	**1,928**

As of 31.12.2018 sales agreements are signed for non-current assets held for sale. The payment for assets are made in instalments. Until final payment the risk and rewards stays on the group, rights and obligation of assets will transfer to the buyer after all contract terms are met. The final payments for GEL 4,249 thousand are contracted by the end of 2019, GEL 111 thousand is contracted until 2021.

The Non-current assets held for sale attributable to the bank amounts GEL 4,016 thousand as at 31 December 2018 (2017: GEL 1,928 thousand).

20 Due to Other Banks

In thousands of Georgian Lari	**2018**	**2017**
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	50,155	29,963
Short-term placements from NBG	50,040	30,018
Total due to other banks	**100,196**	**59,982**

20 Due to other Banks (Continued)

The Group pledged debt securities as collateral with carrying amount of GEL 29,841 thousand and mortgage loans with carrying amount of GEL 27,309 thousand for short term loan with NBG at the end of reporting period (2017: debt securities GEL 39,416 thousand and mortgage loans GEL 29,677 thousand pledged for short-term loans with NBG).

Refer to Note 39 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

21 Customer Accounts

In thousands of Georgian Lari	**2018**	**2017**
State and public organisations		
- Current/settlement accounts	128,789	151,595
- Term deposits	35,137	13,638
Other legal entities		
- Current/settlement accounts	135,716	136,032
- Term deposits	161,995	171,321
Individuals		
- Current/demand accounts	109,751	93,866
- Term deposits	156,033	111,368
Total customer accounts	**727,421**	**677,820**

State and public organisations exclude government owned profit orientated businesses.

The customer accounts balances under the bank's separate statement as at 31 December 2018 amount to GEL 734,262 thousand (2017: GEL 682,318 thousand)

Economic sector concentrations within customer accounts on are as follows:

	2018		**2017**	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	265,784	37%	205,233	30%
Construction	96,789	13%	54,944	8%
Service	80,062	11%	58,565	9%
Transportation or Communication	67,413	9%	67,695	10%
Financial Institutions	64,190	9%	51,296	8%
State Deposits	55,690	8%	29,245	4%
Production/Manufacturing	30,212	4%	77,674	11%
Trade	28,780	4%	30,898	5%
Education	20,808	3%	21,635	3%
Energy	678	0%	62,598	9%
Other	17,015	2%	18,037	3%
Total customer accounts	**727,421**	**100%**	**677,820**	**100%**

At 31 December 2018, the Group had two customers (2017: five customers) with balances above above 10% of total equity. The aggregate balance of these customers was GEL 97,333 thousand (2017: GEL 199,693 thousand) or 13.4% (2017: 29.5%) of total customer accounts.

Refer to Note 39 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

22 Other Borrowed Funds

In thousands of Georgian Lari	2018	2017
Other borrowed funds at AC		
Loans from Blue Orchard	81,003	52,913
Loans from China Development Bank ("CDB")	48,018	51,513
Loans from Black Sea Trade and Development Bank ("BSTDB")	44,029	41,904
Loans from URUMQI CITY COMMERCIAL BANK	43,509	47,496
Loans from European Bank for Reconstruction and Development ("EBRD")	40,505	48,808
Loans from International Finance Corporation ("IFC")	26,693	-
Loans from GREEN FOR GROWTH FUND (Finance-in-Motion)	26,491	-
Loans from GLOBAL CLIMATE PARTNERSHIP FUND (responsAbility)	13,407	-
Loans from Commerzbank	10,267	6,851
Loans from EFA FINANCIAL INSTITUTIONS DEBT FUND PTE. LTD ("EFA")	6,445	-
Loans from BANCA POPOLARE DI SONDRIO SCPA	5,415	7,882
Loans from The OPEC Fund for International Development (OFID)	-	12,903
Other	-	10
Total other borrowed funds at AC	**345,782**	**270,280**
Total other borrowed funds	**345,782**	**270,280**

Refer to Note 39 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 35. Information on related party balances is disclosed in Note 41.

23 Insurance Liabilities and Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	Note	2018	2017
Other financial liabilities at AC			
Payables for services		762	586
Settlement Operations		576	6,473
Other accrued liabilities		389	134
Debit and credit card payables		95	481
Total other financial liabilities at AC		**1,822**	**7,674**
Unearned premium and claims provisions		2,351	-
Other insurance liabilities		2,180	-
Total Insurance liabilities		**4,531**	
Total insurance liabilities and other financial liabilities		**6,353**	**7,674**

The financial liability on settlement operations represents the amounts for which the Bank's customers initiated transfer from their customer accounts to other commercial banks and which have not been settled at the end of the period. These amounts have been deducted from the customer accounts and included in other financial liabilities.

Other insurance liabilities GEL 2,180 thousand contains provisions for claims incurred but not reported amount GEL 135 thousand.

23 Insurance Liabilities and Other Financial Liabilities (Continued)

The movement during the year in insurance contract liabilities is as follows:

In thousands of Georgian Lari	Note	2018	2017
Unearned premium and claims provisions as at 1 January 2018		-	-
Gross premium during the year		5,442	-
Premiums earned during the year		(3,091)	-
Unearned premium and claims provisions as at 31 December 2018		**2,351**	**-**

Risks under policies usually cover twelve months duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The Company reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims

Refer to Note 39 for disclosure of the fair value of each class of other financial liabilities.

24 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	Note	2018	2017
Accrued employee benefit costs		1,773	1,254
Taxes payable other than on income		27	-
Prepayments received		767	260
Other		245	340
Total other liabilities		**2,812**	**1,854**

The other liabilities related to the bank as at 31 December 2018 amount GEL 2,410 thousand (2017: GEL 1,854 thousand)

25 Share Capital

In thousands of Georgian Lari except for number of shares	Number of outstanding shares in thousands	Ordinary shares	Share premium	Total
At 1 January 2017	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2017	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2018	**16,057**	**16,057**	**74,923**	**90,980**

The total authorised number of ordinary shares is 16,137 thousand shares (2017: 16,097 thousand shares), with a par value of GEL 1 per share (2017: GEL 1 per share). All issued ordinary shares are fully paid.

The number of issued ordinary shares is 16,137 thousand shares (2017: 16,097 thousand shares). All issued shares are fully paid. The table above does not include 80 thousand (2017: 40) of granted and issued shares to management which are not yet vested. Each ordinary share carries one voting rignt. Share premium represents the excess of contributions received over the nominal value of shares issued.

In accordance with Georgian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Georgian Accounting Rules, as at 31 December 2018 the profit for the year available for distribution under Georgian Accounting Standards amount GEL 35,230 thousand (2017: GEL 19,588 thousand) The Bank's undistributed reserves under Georgian Accounting Rules at 31 December 2018 amount to GEL 82,129 thousand (2017: GEL 65,530 thousand).

26 Share Based Payments

In April 2015, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2015 – 2016 and granted 71,000 new shares to the members of senior management of the Bank subject to service conditions. These shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties before the service conditions are met.

According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated and separate financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth and profitability metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants. The awarded shares carry service conditions and before those conditions are met, the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete.

Shares 2015 vested in July 2016 and these shares were removed of all post-vesting restrictions. 2016 tranche were issued on 27 July 2017. These shares are subject to post-vesting restrictions, July 2019 (the end of first lock-up period) will remove restrictions on 50% of vested shares and 1 July 2022 (the end of second lock-up period) is when the post-vesting restrictions expire entirely.

In March 2017, the Supervisory Board of the Bank approved a Senior Management Bonus new scheme for the years 2017 – 2021 and granted 169,000 new shares to the members of senior management of the Bank subject to service conditions.

26 Share Based Payments (Continued)

The Group considers 27 March 2017 as the grant date. The fair value per share at the grant date was estimated at GEL 12.55 per share. The fair value of the shares was determined by reference to the price per share established for the share purchase transaction between the owners of the Bank.

According to the new share based scheme the Management Shares will be subject to the similar restrictions and cannot be sold by the Directors within 2 (two) years after the acquisition ("the Lock-up Period"). After the Lock-up Period, half of the Management Shares owned by the Directors can be sold. All of the Management Shares owned by the Directors can be transferred only after the Directors' resignation.

The total expense on the scheme in 2018 amounted to GEL 488 thousand (2017: GEL 463 thousand).

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	**2018**	**2017**
Number of unvested shares at the beginning of the year	**213,000**	**44,000**
Number of granted shares	-	169,000
Change in estimate of number of shares expected to vest based on performance conditions	5,000	-
Number of unvested shares at the end of the year	**218,000**	**213,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense on equity-settled part	488	463
Expense recognized as staff cost during the year	**488**	**463**

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period and corresponding entry is credited to share based payment reserve in equity. The share based payment reserve included in equity amounted to GEL 1,339 as at 31 December 2018 (GEL 851 as at 31 December 2017).

27 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Georgian Lari	Note	Revaluation reserve for AFS securities	Revaluation reserve for premises	Total
Year ended 31 December 2017				
Investment securities available for sale:				
- Gains less losses recycled to profit or loss upon disposal or impairment		(85)		(85)
Total other comprehensive loss		**(85)**		**(85)**
Year ended 31 December 2018				
Revaluation of premises and equipment			1,052	1,052
Total other comprehensive income			**1,052**	**1,052**

28 Interest Income and Expense

In thousands of Georgian Lari	2018	2017
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	84,739	66,559
Debt securities at AC	12,129	10,334
Due from other banks mandatory balances held with the NBG at AC	1,935	1,735
Total interest income calculated using the effective interest method	**98,803**	**78,628**
Total interest income	**98,803**	**78,628**
Interest and other similar expense		
Term deposits of legal entities	9,622	10,129
Term deposits of individuals	7,407	5,300
Current/settlement accounts	4,371	4,431
Borrowings from banks and other financial institutions	15,433	9,076
Due to other banks	6,252	3,686
Total interest expense	**43,085**	**32,622**
Net interest income	**55,718**	**46,006**

29 Fee and Commission Income and Expense

In thousands of Georgian Lari	2018	2017
Fee and commission income		
Fee and commission income not relating to financial instruments at FVTPL:		
- Plastic card fees	2,098	1,584
- Fees related to guarantees issued	1,656	1,119
- Settlement transactions	1,524	1,312
- Cash transactions	650	595
- Distant banking fees	232	149
- Other	470	214
Total fee and commission income	**6,630**	**4,973**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at FVTPL		
- Plastic card fees	1,709	1,328
- Settlement transactions	491	426
- Commissions for credit lines	-	92
- Cash Collection & Transaction fees	129	148
- Expenses Related to Guarantees	17	96
- Other	144	148
Total fee and commission expense	2,490	2,238
Net fee and commission income	**4,140**	**2,735**

30 Other Operating Income

In thousands of Georgian Lari	Note	2018	2017
Gains less losses on disposal of repossessed property		2,857	517
Reversal of impairment of repossessed property		660	-
Rental income from investment properties		165	171
Fines and penalties		13	8
Other		44	-
Total other operating income		**3,739**	**696**

31 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2018	2017
Employee compensation		15,150	11,014
Professional services		2,233	1,176
Depreciation and amortisation	22	1,726	1,369
Advertising and marketing		1,254	994
Occupancy		1,110	1,008
Communications and information services		719	695
Security		628	623
Repairs and maintenance		553	441
Taxes other than on income		302	270
Impairment of litigation prepayments and other financial assets		291	183
Insurance		289	204
Office supplies		260	206
Travel and training		70	99
Impairment of repossessed property		-	116
Other		1,273	935
Total administrative and other operating expenses		**25,858**	**19,333**

Included in staff costs is the amount of GEL 488 thousand (2017: GEL 463 thousand), which represents share-based remuneration provided to the Group's personnel directly by shareholders.

Direct operating expenses for investment properties that generate rental income amounted to GEL 25 thousand (2017: GEL 19 thousand) and consisted of costs of utilities and staff costs. Direct operating expenses for investment properties that did not generate rental income amounted to GEL 1 thousand (2017: GEL 1 thousand).

As at 31 December 2018 the professional service fees include GEL 463 thousand fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing (2017: GEL 226 thousand). The fees related to the bank as at 31 December 2018 amount GEL 431 thousand, (2017: GEL 226 thousand).

32 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Georgian Lari	2018	2017
Current tax	(3,991)	(2,390)
Deferred tax	(1,482)	648
Income tax expense for the year	(5,473)	(1,742)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2018 income is 15% (2017: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2017: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	2018	2017
Profit before tax	**42,766**	**31,633**
Theoretical tax charge at statutory rate (2018: 15%; 2017: 15%)	(6,415)	(4,745)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation (Government /NBG's securities and deposits)	2,065	1,695
- Income items not recognized in P&L, but taxable from taxation viewpoint	(91)	(38)
- Non-deductible expenses	(8)	(23)
- Effect of change in tax legislation	(1,024)	1,369
Income tax expense/(credit) for the year	**(5,473)**	**(1,742)**

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 7 thousand (2017: nill) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia for commercial banks, insurance organizations abolishing income tax attributable on the period profit (before distribution in a form of dividend or other forms of profit distributions) starting from 1 January 2019.

On 30 May 2018 the Georgian Government has announced postponement of these changes until 1 January 2023. As of 31 December 2018, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2019 to 31 December 2022.

32 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below

In thousands of Georgian Lari	**1 January 2018**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 Decem-ber 2018**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(14)	(373)	-	(387)
Credit loss allowance of loans	(799)	(923)	(134)	(1,856)
Guarantee impairment provision	(20)	(92)	(13)	(125)
Interbank Reserve	-	(8)	24	16
Reversal of Securities Reserve	-	10	39	49
Accruals	250	(49)	49	250
Other	373	(62)	-	311
Share Based Payment	58	13	-	71
Net deferred tax asset/(liability)	**(152)**	**(1,484)**	**(35)**	**(1,671)**

In the context of the Group’s current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In thousands of Georgian Lari	**1 January 2017**	**Credited/ (charged) to profit or loss**	**31 Decem-ber 2017**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	(246)	232	(14)
Loan impairment provision	(1,176)	378	(798)
Guarantee impairment provision	(63)	43	(20)
Accruals	179	71	250
Other	457	(85)	372
Share Based Payment	49	9	58
Net deferred tax asset/(liability)	**(800)**	**648**	**(152)**

33 Dividends

In thousands of Georgian Lari	2018 Ordinary	2017 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	2,989	2,545
Dividends paid during the year	(2,989)	(2,545)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.19**	**0.16**

All dividends are declared and paid in Georgian Lari.

34 Debt Reconciliation

The table below sets out movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows.

	Liabilities from financing activities	
In thousands of Georgian Lari	**Borrowed funds**	**Total**
Debt at 1 January 2017	**121,530**	**121,530**
Cash flows	150,444	150,444
Foreign exchange adjustments	(2,507)	(2,507)
Other non-cash movements	813	813
Debt at 31 December 2017	**270,280**	**270,280**
Debt at 1 January 2018	**270,280**	**270,280**
Cash flows	66,678	66,678
Foreign exchange adjustments	7,637	7,637
Other non-cash movements	1,187	1,187
Debt at 31 December 2017	**345,782**	**345,782**

35 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. The Group manages the identification, assessment and mitigation of risks through an internal governance process, the risk management tools and processes to mitigate the impact of these risks on the Group's financial results, its long term strategic goals and reputation.

Responsibility for risk management resides at all levels within the Group, from the Supervisory Board and Management Board (The Executive Management) level down through to each business unit manager and risk officer. The risk management function is split between following risk management units: The Supervisory Board, the Management Board, Audit Committee, Risk Management committee, Assets and Liabilities Management Committee ("ALCO"), Risk Management department, Treasury department, and Credit Committees.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. As a top governing body of the Bank, the Supervisory Board sets the general approach and principles for risk management by assessing the Bank's risk profile and the adequacy and effectiveness of the Bank's risk management framework, approving individual risk strategies, setting risk appetite and the risk control framework.

The Risk Management policies approved by the Supervisory Board of the Bank cover main type of risks, assign responsibility to the management for specific risks, set the requirements for internal control frameworks. The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board defines appropriate procedures for managing all inherent risks in each business line, with the role of structuring business to reflect risk, ensuring adequate segregation of duties and adequate procedures in place, defining operational responsibilities of subordinate staff. The Management Board is responsible for monitoring and implementation of risk mitigation measures and ensuring that the Group operates within the established risk parameters.

Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk, both at portfolio and transactional levels, is managed by a system of Credit Committees; to facilitate efficient decision-making, the Group establishes a hierarchy of credit committees depending on the type and amount of the exposure.

Market and liquidity risks are managed by the Asset and Liability Management Committee in coordination with the Treasury Department and the Risk Management department. The Treasury Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise, executes the daily control of liquidity gaps, structural interest rate exposures, and controls and manages foreign exchange risk exposure.

The Bank sets principles about risk taking and risk management which are reflected in the internal rules and policies, and applied consistently throughout the organisation. These general principles are the following:

- prudent risk-taking with comprehensive risk assessment and control environment,
- adequate and effective monitoring and reporting system,
- proper quantification of risks using proper methodologies in line with the size and complexity of the Bank,

35 Financial Risk Management (Continued)

- adopting and fulfilment of all the regulatory requirements and guidelines available and using best practices via using international standards,
- operating effective risk governance by maintaining proper risk control hierarchy, independent from business activities in order to avoid conflict of interest,
- the observation of risk management considerations upon the launch of new activities, business lines or products

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular emphasis is placed on developing risk maps that are used to identify a wide range of risk factors and serve as a basis for determining the level of comfort over the current risk mitigation procedures.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated and separate statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. 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, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers:

- The senior credit committee reviews and approves limits above USD 300 thousand, Approvals are given by e-mail or the committee meets when necessary. It is also responsible for issuing guidance to lower-level credit committees;
- The junior credit committees review and approve credit limits between USD 100-300 thousand. Approvals are given by e-mail or the committee meets when necessary
- Applications up to USD100 thousand are approved by risk management department. Exceptions are retail loans up to USD20 thousand are approved by retail lending group

35 Financial Risk Management (Continued)

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the dedicated staff of Financial Reporting and Risk management departments based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Risk Committee, the Management Board and Supervisory Board.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies an Internal Rating System for legal entities or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's) for Interbank exposures, Securities and other financial assets, when applicable.

Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	**Corporate internal ratings**	**Corresponding ratings of external international rating agencies (Fitch)**	**Corresponding PD interval of international rating agencie (Fitch)**
Excellent	1 – 2	AAA to BB+	0,01% - 0,5%
Good	3 – 4	BB to B+	0,51% - 3%
Satisfactory	5 – 6	B, B-	3% - 10%
Special monitoring	7 – 8	CCC+ to CC-	10% - 99,9%
Default	9	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

Excellent – strong credit quality with low expected credit risk;

Good – adequate credit quality with a moderate credit risk;

Satisfactory – moderate credit quality with a satisfactory credit risk;

Special monitoring – facilities that require closer monitoring and remedial management; and

Default – facilities in which a default has occurred.

The approach used by the Group for measuring credit risk associated with legal entities, is an Expert Judgement-based model designed internally, which assigns credit ratings to the borrower based on the different qualitative and quantitative factors. Ratings are estimated by credit risk officers and are reviewed by the members of the credit risk committees during the credit approval process.

35 Financial Risk Management (Continued)

Exposures without assigned internal rating are classified according to credit risk, using different quantitative and qualitative criteria: days in overdue, restructuring, existence of collaterals.

Credit Risk Grade	Credit Quality criteria
Excellent	Not overdue; fully covered with deposit,precious metal or government guarantee
Good	Not more than 31 days past due during last 12 months
Satisfactory	Not more than 31-60 days past due during last 12 months, or if loan was restructured, the event happened more than one year ago and current overdue is less than 31 days past due
Special monitoring	Not more than 61-90 days past due during last 12 months , or if the loan was restructured, the event happened more than one year ago and current overdue is 31-90 days past due
Default	Loan was restructured in last 12 months or minimum overdue in last 12 months is 90 days past due

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: interbank placements, loans to sovereigns and sub-sovereigns, and investments in debt securities (government, corporate, municipal bonds, eurobonds and promissory notes purchased).

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. Due to data limitation CCF is assumed to be 100%. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments. Currently the bank doesn't adjust the ECL for expected prepayments, but the effect is assessed to be immaterial. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. As a matter of exception from determining the lifetime exposure based on contractual maturity, the Group uses simplified assumptions for credit cards issued to individuals. 5 years (maximum allowed maturity for unsecured consumer credits) is applied as maximum lifetime these instruments and ECL is always measured at lifetime expected losses.

35 Financial Risk Management (Continued)

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime

ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- 90 days past due (DPD);
- Distressed restructuring (i.e. exposure is defaulted);
- Inability to repay (ITR), which is expressed in internal rating of the counterparty.

Usually only 90 DPD and distressed restructuring are considered as default indicators for Retail borrowers, if there is no additional information available on a counterparty level.

Apart from the criteria, listed above the group would classify as default, i.e. include in stage 3, if relevant, following cases:

- Call upon guarantee;
- Partial Write-off;
- Specific portfolios or segments, in case of global macroeconomic changes, which are expected to have detrimental impact on certain segments.

Apart from the criteria, listed above, in case of individual assessment of the counterparties above significane threshold in order to classify a counterparty as defaulted, the bank analysis number of qualitative factors. The below list is not exhaustive:

- A borrower's sources of recurring income will be no longer available due to incurred disappearance of the market that will result reduction of the borrowers sales;
- Delays in payments to other creditors;
- Sales of significant assets of the borrower with loss;
- Termination of significant contract (customer or supplier) that generates significant portion of the revenue or purchases in the past;
- A breach of contract and the covenants of a credit contract;
- Initiation of legal proceedings, that may result in significant cash outflow;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- A crisis of the sector in which the counterparty operates combined with a weak position of the counterparty in this sector.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined expertly, based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

35 Financial Risk Management (Continued)

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis for each commitment and on a portfolio basis. For loans issued to corporate entities, interbank loans and debt securities at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. For loans issued to individuals and other financial assets SICR is assessed on a portfolio basis, but finally SICR is assigned to a particular loan and not to all loans of a borrower. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Group uses low credit risk assessment exemption for investment grade financial assets. The bank assumes that assets with an external 'investment-grade' rating (e.g., ratings within the AAA through BBB categories using the Standard & Poor's rating system or corresponding to Moody's) have low credit risk at the reporting date. The Group doesn't use Low Risk assessment exeption as of reporting date.

The Group considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For interbank operations and bonds issued by banks:

- 30 days past due;
- award of external rating corresponding to the risk grade "Special monitoring" according to the rating scale disclosed above.

For loans issued to legal entities and bonds issued by corporate customers:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Change of internal rating corresponding to the downwards movement from credit risk grades "excellent" or "good" to "Satisfactory" or "Special Monitoring".

For loans to Individuals:

- 30 days past due;
- Restructuring (if exposure is not defaulted);
- Significant increase in lifetime PD/Significant increase in 12 months PD for retail portfolio.

The level of ECL that is recognised in these consolidated and separate financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed, this is particular will be true for portfolios which have been included in Stage 2 based on watch list status. Regular, at least yearly monitoring is performed for such portfolios to include latest developments into ECL assessment.

35 Financial Risk Management (Continued)

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group performs assessment on an individual basis for the following types of loans: loans with unique credit risk characteristics, individually significant loans, that is, individual exposures above GEL 2,000 thousand Current threshold was set based on expert decision taking into consideration current structure of the Bank's Portfolio, and might be re-assessed only in case of significant changes in portfolio volume and structure.

The Group performs assessment on a portfolio basis for the following types of loans: retail loans and loans issued to Corporate SMEs, when the exposure is under the significance threshold. Under this approach loan pools are stratified into homogeneous sub-segments based on -specific characteristics, for example product types, historical data on losses, location, sectors of activity, loan currency etc.

The Group performs assessments based on external ratings for interbank loans, debt securities issued by the banks and loans issued to sovereigns.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the Credit Risk and Problem Assets Management Department, with support of credit risk experts, who are the primary source of information from borrower's side. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as wholesale or retail), product type, date of initial recognition, term to maturity etc. Different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future quarter during the lifetime period for each individual exposure or collective segment. These three components are multiplied together This effectively calculates an ECL for each future period, that is afterwords discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Due to the insufficient data on the payment periodicity for instruments with non-monthly schedules, the assumption of 30-day schedule has been used for the entire corporate/SME portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early repayment or refinancing assumptions in ECL assessment (the impact was assessed to be insignificant). For revolving products like overdrafts and credit cards the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. CCF is assumed to be 100% for retail and corporate credit cards and overdrafts. Unlike CCF, which is used for credit cards and overdrafts, Utilization Rate is calculated and updated for each reporting period for the committed, but undrawn limits for Corporate and SME exposures. Utilization rate is the assessment for the expected drawdown of the remaining limit by the time, when counterparty defaults and is calculated based on the analysis of past data, i.e. historical data on corporate and SME exposures with remaining undrawn limit at the moment of default.

35 Financial Risk Management (Continued)

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Group uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes for Corporate and SME loans, developing lifetime PD curves based on the historical default data for Retail loans.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. The approach currently used by the Group for LGD measurement can be divided into three steps:

- calculation of LGD on a portfolio basis based on recovery statistics; LGD1- recoveries based on solely clients cash payments
- measurement of LGD based on the specific characteristics of the collateral; LGD2 - recoveries expected based on the specific real estate collateral: projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities
- final LGD= LGD1*LGD2

The rationale behind the Group's approach is the observation that even after default, certain part of defaulted exposure is covered by borrowers own cash payments, without realizing the underlying collateral. Therefore underlying collateral is used to cover the remaining defaulted liability, only after the borrower has exhausted payment possibilities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate/SME loan portfolio and for retail homogenous sub-portfolios.

The group has applied a floor to final estimated LGD. The rationale for applying the floor is that there are factors, which cannot be modeled even in the pessimistic scenario, which can result in a loss even in case of over-collateralized assets. The group applies LGD floor as management adjustment to the model estimates and the floor value is subject to regular back-testing and reviews. ECL Sensitivity to LGD floor is disclosed in note 4.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and interbank exposures.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. Forecasts of economic variables (the "base economic scenario", "Upside economic scenario" and "downside economic scenario") are published by the National Bank of Georgia and provide the best estimate of the expected macro-economic development. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates. Final PD models have been adjusted with relevant macroeconomic variables, with significant impact on Default rates (Nominal Effective Exchange Rates for Retail PD Models and Country Sovereigh Risk Premium for Corporate PD Models). The Group has incorporated macroeconomic variables in the formulas for LGD, in particular in LGD2 formulas, via incorporating adjustment by real estate price index on the collateral value. Currently no macroeconomic adjustment is done for EAD, but the impact has been assessed as insignificant.

35 Financial Risk Management (Continued)

Currently the Group uses only scenarios published by the National Bank of Georgia for macroeconomic adjustment in impairment model. In the final model, Scenario weights are according to the weights determined in the NBG's publication: 50% for baseline scenario, 25%-25% for upside and downside scenarios.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The open currency position may cause substantial losses depending on the extent of difference and a change in exchange rate. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. General open currency position limits are set to minimize this risk insomuch as such change may adversely affect the Bank revenues, equity, liquidity and creditworthiness.

The open currency position is calculated and maintained on a daily basis. In the event of any violation, the Bank must perform balancing operations to bring the parameter within the approved limits. General open currency positions is a consolidated on-balance sheet and off-balance sheet position which must fall within the limits set by NBG, which is 20% of regulatory capital.

However, ALCO introduces intra-day and overnight open currency position limits in aggregate and for individual currencies, within which the Bank may operate. Such limits are reviewed by ALCO from time to time to respond to market conditions. Bank’s internal limits are significantly lower than the limits set by the NBG. Current limit equals 5% of the regulatory capital. The Group monitors under ICAAP framework its exposure to currency risk, according to 99% confidence level VaR at 10 day holding period. As at 31 December 2018 the VaR value amounted GEL 462 thousand (2017: GEL 180 thousand).

35 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2018			At 31 December 2017		
In thousands of Georgina Lari	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Georgian Lari	552,719	350,163	202,556	390,796	218,908	171,888
US Dollars	740,437	738,333	2,104	731,642	730,751	891
Euros	90,872	90,777	95	65,693	65,509	184
Other	537	479	58	632	586	46
Total	1,384,565	1,179,752	204,813	1,188,763	1,015,754	173,009

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2018	At 31 December 2017
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2017: strengthening by 20%)	421	178
US Dollar weakening by 20% (2017: weakening by 20%)	(421)	(178)
Euro strengthening by 20% (2017: strengthening by 20%)	19	37
Euro weakening by 20% (2017: weakening by 20%)	(19)	(37)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2018	Average exposure during 2017
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2017: strengthening by 20%)	112	34
US Dollar weakening by 20% (2017: weakening by 20%)	(112)	(34)
Euro strengthening by 20% (2017: strengthening by 20%)	(2)	(1)
Euro weakening by 20% (2017: weakening by 20%)	2	1

35 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
31 December 2018						
Total financial assets	362,888	286,756	147,546	450,318	137,057	1,384,565
Total financial liabilities	355,355	195,723	209,969	194,720	220,518	1,176,285
Net interest sensitivity gap at 31 December 2018	**7,533**	**91,033**	**(62,423)**	**255,598**	**(83,461)**	**208,280**
31 December 2017						
Total financial assets	306,156	172,509	192,159	382,545	135,395	1,188,764
Total financial liabilities	353,803	311,399	136,949	31,548	182,057	1,015,756
Net interest sensitivity gap at 31 December 2017	**(47,647)**	**(138,890)**	**55,210**	**350,997**	**(46,662)**	**173,008**

As at 31 December 2018 most of interest bearing assets and liabilities are placed in USD, part of loans and advances to customers and borrowings are based on floating interest rates. For the average exposure during 2018 if interest rates had been 200 basis points lower (2017: 200 basis points lower) on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit for the year would have been GEL 1,068 thousand lower (2017: GEL 1,042 thousand lower), mainly as a result of lower interest income on variable interest assets of GEL 2,246 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 1,178 thousand, (2017: mainly as a result of lower interest income on variable interest assets by GEL 1,665 thousand which exceed decrease in interest expenses from floating rate borrowings by GEL 623 thousand); if interest rates had been 100 basis points lower (2017: 100 basis points lower) on foreign currency denominated interest bearing assets and liabilities, with all other variables held constant, profit for the year would have been GEL 153 thousand lower (2017: GEL 145 thousand lower), due to lower interest income on variable interest assets of GEL 642 which exceeds increase income from floating rate borrowings of GEL 448 (2017: mainly as a result of lower interest income on variable interest assets).

If interest rates had been 200 basis points higher (2017: 200 basis points higher), on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit would have been GEL 1,068 thousand higher (2017: GEL 1,042 thousand higher), mainly as a result of higher interest income on variable interest assets by GEL 2,246 thousand which exceed growth of interest expense from floating rate borrowings of GEL 1,178 thousand (2017: mainly as a result of higher interest income on variable interest assets of GEL 1,665 which exceed growth of interest expenses from floating rate borrowings by GEL 632 thousand). If interest rates had been 100 basis points higher (2017: 100 basis points higher) on foreign currency denominated interest bearing assets and liabilities, with all other variables held constant, profit for the year would have been GEL 153 thousand higher (2017: GEL 327 thousand lower) with higher interest income on variable interest assets of GEL 642 and decrease in income from floating rate borrowings by GEL 448 (2017: mainly as a result of higher expense on variable interest liabilities of GEL 471 thousand which exceed decrease in interest income from floating rate loans of GEL 145 thousand).

35 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel:

	2018			2017		
	GEL	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	0.2%	1.0%	-	2%	1.0%	-
Mandatory cash balances with the NBG		0.8%	-0.6%	-	1.0%	-0.6%
Due from other banks	-	-	-	4.0%	-	-
Investments in debt securities	8%	-	-	-	-	-
Loans and advances to customers	11.7%	8.7%	6.2%	11.8%	8.7%	7.1%
Bonds carried at amortized cost	-	-	-	8.0%	-	-
Liabilities						
Due to other banks	7.1%	5.3%	1.6%	7.4%	-	-
Customer accounts	7.3%	3.5%	1.6%	7.0%	3.1%	1.9%
- current and settlement accounts	7.0%	3.4%	1.3%	7.3%	3.4%	0.9%
- term deposits	7.7%	3.6%	1.7%	6.5%	3.0%	2.0%
Other borrowed funds	12.4%	6.0%	3.4%	-	5.0%	3.8%

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to repay the loans early. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans and advances to customers (2017: no material impact).

The management of interest rate risk is regulated by the Assets and Liabilities Management ("ALM") Policy of the Bank. The Risk Management department regularly produces a report on interest sensitivity gap by repricing periods. The report is used to assess the impact of changes in interest rates on the profit of the Bank. The amount of the stress (expressed in basis points) of the interest rates incorporated in the report is defined by the Risk Management department, based on observed fluctuations in interest rates for relevant currencies. The limit of tolerable potential impact on the profit of the Bank is defined as up to 1% of the regulatory capital.

35 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2018 is set out below:

In thousands of Georgian Lari	**Georgia**	**China**	**OECD**	**Non-OECD**	**Total**
Financial assets					
Cash and cash equivalents	68,843	8	1,056	62,593	132,500
Mandatory cash balances with NBG	170,443	-	-	-	170,443
Investments in debt securities	175,690	-	-	-	175,690
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	900,803	-	-	-	900,803
Other financial assets	5,066	-	-	-	5,066
Total financial assets	**1,320,908**	**8**	**1,056**	**62,593**	**1,384,565**
Financial liabilities					
Due to other banks	100,196	-	-	-	100,196
Customer accounts	647,067	80,354	-	-	727,421
Other borrowed funds	-	91,527	247,810	6,445	345,782
Other financial liabilities	6,353	-	-	-	6,353
Total financial liabilities	**753,616**	**171,881**	**247,810**	**6,445**	**1,179,752**
Net position in on-balance sheet financial instruments	**567,292**	**(171,873)**	**(246,754)**	**56,148**	**204,813**
Credit related commitments	**154,212**	**2,414**	**-**	**-**	**156,626**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with counterparties outstanding to/from companies ultimately controlled by the entities located in China are allocated to the caption "China". Cash and cash equivalents have been allocated based on the country in which they are physically held.

35 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Financial assets					
Cash and cash equivalents	61,121	1	78,448	7	139,577
Mandatory cash balances with NBG	130,824				130,824
Due from other banks	15,094				15,094
Loans and advances to customers	757,874				757,874
Investment securities available for sale	63				63
Investment securities held to maturity	143,903				143,903
Other financial assets	1,429				1,429
Total financial assets	**1,110,308**	**1**	**78,448**	**7**	**1,188,764**
Financial liabilities					
Due to other banks	59,982				59,982
Customer accounts	533,096	144,724			677,820
Other borrowed funds	9	-	158,358	111,913	270,280
Other financial liabilities	7,674				7,674
Total financial liabilities	**600,761**	**144,724**	**158,358**	**111,913**	**1,015,756**
Net position in on-balance sheet financial instruments	**509,547**	**(144,723)**	**(79,910)**	**(111,906)**	**173,008**
Credit related commitments	**105,777**	**2,347**	**-**	**-**	**108,124**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group manages liquidity risk according to the Asset-Liability Management Policy and Regulation of Liquidity Management, where detailed processes and limit system for liquidity management is defined. The Asset/Liability Committee is responsible for the implementation of the Asset-Liability Management Policy, the daily management of liquidity is the responsibility of Treasury Department.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

35 Financial Risk Management (Continued)

The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBG, which is defined as average ratio of liquid assets to liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis. The average liquidity ratio was 57% at 31 December 2018 (2017: 57%);

The group manages liquidity risk according to the ALM Policy and Regulation of Liquidity Management, which detail liquidity management processes and procedures and relevant limits. The Regulation of Liquidity Management defines limits on:

- Liquidity Coverage Ratio (“LCR”)
- Cumulative liquidity gaps

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

35 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2018 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	132,500	-	-	-	-	132,500
Mandatory cash balances with the NBG	170,443	-	-	-	-	170,443
Investments in debt securities	6,021	27,114	52,592	89,963	-	175,690
Investments in equity securities	-	-	-	-	63	63
Loans and advances to customers	16,650	119,118	169,500	370,532	225,003	900,803
Other financial assets	507	-	4,425	-	134	5,066
Total	**326,121**	**146,232**	**226,517**	**460,495**	**225,200**	**1,384,565**
Liabilities						
Due to other banks	65,400	34,796	-	-	-	100,196
Customer accounts – individuals	123,154	51,585	70,663	26,742	2,410	274,554
Customer accounts – other	287,796	49,664	94,555	34,250	589	466,854
Other borrowed funds	5,353	87,038	114,003	157,486	10,595	374,475
Other financial liabilities	1,588	4,765	-	-	-	6,353
Financial guarantees	55,573	-	-	-	-	55,573
Gross loan commitments	77,771	-	-	-	-	77,771
Total potential future payments for financial obligations	**616,635**	**227,848**	**279,221**	**218,478**	**13,594**	**1,355,776**
Liquidity gap arising from financial instruments	**(290,514)**	**(81,616)**	**(52,704)**	**242,017**	**211,606**	**28,789**

35 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The maturity analysis of financial instruments at 31 December 2017 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	139,577	-	-	-	-	139,577
Mandatory cash balances with the NBG	130,824	-	-	-	-	130,824
Due from other banks	-	15,094	-	-	-	15,094
Loans and advances to customers	13,611	117,206	194,569	261,911	170,577	757,874
Investment securities available for sale	-	-	-	-	63	63
Bonds carried at amortized cost	10,681	40,180	45,311	47,731	-	143,903
Other financial assets	1,202	-	205	-	22	1,429
Total	**295,895**	**172,480**	**240,085**	**309,642**	**170,662**	**1,188,764**
Liabilities						
Due to other banks	44,028	15,954	-	-	-	59,982
Customer accounts – individuals	112,444	29,566	44,439	23,197	1,462	211,108
Customer accounts – other	303,058	60,646	91,320	22,413	591	478,028
Other borrowed funds	60,157	68,872	80,111	67,514	-	276,654
Other financial liabilities	7,590	84	-	-	-	7,674
Financial guarantees	30,978	-	-	-	-	30,978
Gross loan commitments	50,477	-	-	-	-	50,477
Total potential future payments for financial obligations	**608,732**	**175,122**	**215,870**	**113,124**	**2,053**	**1,114,901**
Liquidity gap arising from financial instruments	**(312,837)**	**(2,642)**	**24,215**	**196,518**	**168,609**	**73,863**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Georgian legislation, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

35 Financial Risk Management (Continued)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2018						
Financial assets	326,120	146,232	226,517	460,495	225,200	1,384,564
Financial liabilities	169,088	246,422	285,521	323,456	197,944	1,222,431
Financial and performance guarantees	374	-	-	-	-	374
Undrawn credit related commitments	7,777	-	-	-	-	7,777
Net liquidity gap based on expected maturities	**148,881**	**(100,190)**	**(59,004)**	**137,039**	**27,257**	**153,982**
Cumulative liquidity gap based on expected maturities	**148,881**	**48,691**	**(10,313)**	**126,726**	**153,982**	**-**
At 31 December 2017						
Financial assets	295,896	172,479	240,085	309,642	170,661	1,188,763
Financial liabilities	198,013	208,686	228,051	337,713	66,429	1,038,892
Financial and performance guarantees	362	-	-	-	-	362
Undrawn credit related commitments	5,048	-	-	-	-	5,048
Net liquidity gap based on expected maturities	**92,473**	**(36,207)**	**12,034**	**(28,071)**	**104,232**	**144,461**
Cumulative liquidity gap based on expected maturities	**92,473**	**56,266**	**68,300**	**40,229**	**144,461**	

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

As at 31 December 2018 the management believes it will be able to close the liquidity gap by obtaining sufficient borrowings from NBG or other banks under committed borrowings as and when necessary arises.

36 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Georgia, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least above the minimum level stated in borrowing agreements.

Compliance with capital adequacy ratios set by the NBG is monitored monthly, with reports outlining their calculation reviewed and signed by Deputy General Director, Finances. Other objectives of capital management are evaluated quarterly.

In the process of transition to Basel III framework, to increase transparency and comparability and segregate between available Capital instruments, for coverage of potential risks, the National Bank of Georgia ("NBG") amended Capital Adequacy requirements in December 2017 and in addition to the minimum capital requirements under pillar 1, in updated framework new Pillar 1 and Pillar 2 buffers were introduced:

Buffers under pillar 1:

- The capital conservation buffer - 2.5% of risk-weighted assets, and is designed to provide for losses in the event of stress, included in minimum capital requirements;
- The countercyclical capital buffer - was introduced within the Basel III framework and represents one of the main macro-prudential policy instruments, currently set at 0%;
- Systemic buffers - are set separately for each commercial bank considered to be systematically important (not applicable for Basis bank)

Buffers under pillar 2:

- Unhedged currency induced credit risk buffer (CICR);
- Credit portfolio concentration buffer, which entails name and sectoral concentration buffers;
- Net stress test buffer, will be introduced in accordance with stress tests results administered by the NBG;
- Net GRAPE buffer, set in accordance with the NBG's General Risk Assessment Program and the assessment of banks' internal capital requirement;

Under the current capital requirements set by the NBG, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Based on information provided internally to key management personnel, the amount of capital that the Group managed was GEL 218,933 thousand as of 31 December 2018 (2017: GEL 185,100 thousand), regulatory capital amounts to GEL 221,981 thousand (2017: GEL 187,028 thousand) and the Group and the Bank have complied with all externally imposed capital requirements throughout 2018 and 2017.

36 Management of Capital (Continued)

The following Capital adequacy report is prepared under stand alone basis in accordance with NBG standards:

In thousands of Georgian Lari	**2018 Pillar I/II**	**2017 Pillar I/II**
Primary capital		
Share capital	16,138	16,097
Share premium	75,784	75,284
Retained earnings according to the NBG regulations	82,129	65,530
Revaluation reserve	9,653	8,602
Current year profit according to NBG regulations	35,230	19,588
Primary capital Before Correction	**218,934**	**185,101**
Primary capital Corrections	(11,017)	(9,463)
Total primary capital After correction	**207,917**	**175,638**
Secondary capital		
General reserve	14,064	11,390
Total secondary capital	**14,064**	**11,390**
Total regulatory capital	**221,981**	**187,028**
Risk weighted assets, combining credit, market and operational risks	**1,215,027**	**980,272**
Minimum Tier 1 Ratio	***11.1%***	***10.1%***
Tier I ratio	**17.11%**	**17.92%**
Regulatory capital ratio	**18.27%**	**19.1%**

37 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these consolidated and separate financial statements.

Tax contingencies. Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open for reviw by the tax authorities during the three subsequent calendar years; however, under certain circumstances tax year may remain open longer.

The Bank is under inspection of tax authorities for the tax period starting from 1 April 2015 until 31 August 2018.There are certain areas which were questioned by the tax authorities, the Bank has not agreed with the estimations, disputes were not settled as at 31 December 2018. The onsite inspection contintues and is not finalised as at 31 December 2018. No provision has been made as the Group's management believes that it is not likely that any significant loss will eventuate.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Group consults with qualified external tax advisors on a regular basis.

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

In thousands of Georgian Lari	**2018**	**2017**
Not later than 1 year	327	297
Total operating lease commitments	**327**	**297**

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

37 Contingencies and Commitments (Continued)

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that the Group was in compliance with covenants at 31 December 2018.

As of 31 December 2017, the Bank has breached one covenant under the loan agreement with BlueOrchard Microfinance Fund. Management believes that the Group was in compliance with all other covenants at 31 December 2017.The carrying amount of the affected loan as of 31 December 2017 was GEL 52,913 thousands. The breach has been adequately reflected in the contractual maturity table under the Financial Risk Management note.

The Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel II. The Bank complied with this loan covenant.

The composition of the Bank's capital calculated in accordance with the Basel Accord is as follows:

In thousands of Georgian Lari	**2018**	**2017**
Tier 1 capital		
Share capital	90,980	90,980
Retained earnings	146,999	113,316
Total tier 1 capital	**237,979**	**204,296**
Tier 2 capital		
Revaluation reserves	9,372	8,387
General reserve	4,483	8,230
Total tier 2 capital	**13,767**	**16,617**
Total capital	**251,746**	**220,913**

General reserve included in Tier 2 is defined as lower of (a) IFRS provisions created on loans without signs of impairment and (b) 2% of loans without impairment trigger event.

37 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	Note	2018	2017
Financial guarantees issued		55,573	30,979
Undrawn credit line commitments		77,771	50,477
Total loan commitments		133,344	81,456
Less: Provision for financial guarantees		(95)	(168)
Less: Provision for loan commitments		(262)	-
Less: Commitment collateralised by cash deposits		(24,422)	(23,295)
Total credit related commitments, net of provision and cash covered exposures		**108,565**	**57,993**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

37 Contingencies and Commitments (Continued)

Movements in provisions for financial guarantees are as follows:

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Total provision**	**Gross guaranteed amount**
Provision for financial guarantees at 1 January 2018	**77**	**1**	**78**	**30,978**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(44)	44	-	-
Issued guarantees	95	-	95	49,887
Derecognised during the period	(77)	(1)	(78)	(25,380)
Total charge to profit or loss for the year	**(26)**	**43**	**17**	**55,485**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	-	-	-	88
Provision for financial guarantees at 31 December 2018	**51**	**44**	**95**	**55,573**

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2018 is as follows.

In thousands of Georgia	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Issued financial guarantees				
- Excellent	10,674	-	-	10,674
- Good	39,431	-	-	39,431
- Satisfactory	-	5,468	-	5,468
Unrecognised gross amount	**50,105**	**5,468**	**-**	**55,573**
Provision for financial guarantees	**(51)**	**(44)**	**-**	**(95)**
Loan commitments				
- Excellent	7,334	-	-	7,334
- Good	53,358	-	-	53,358
- Satisfactory	-	17,037	-	17,037
- Special monitoring	-	43	-	43
Unrecognised gross amount	**60,692**	**17,080**	**-**	**77,772**
Provision for loan commitments	**(123)**	**(139)**	**-**	**(262)**

37 Contingencies and Commitments (Continued)

Refer to Note 35 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to credit related commitments.

The fair value of credit related commitments was GEL 638 thousand at 31 December 2018 (2017: GEL 1,379 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments. Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.
The exposure and concentration of performance guarantees expressed at the amounts guaranteed is as follows:

In thousands of Georgian Lari	**Note**	**2018**	**2017**
Construction		14,216	10,266
Trade		747	1,653
Service		1,454	2,081
Other		6,865	12,669
Total guaranteed amounts		**23,282**	**26,669**

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	**Note**	**2018**	**2017**
Carrying amount at 1 January		**179**	**79**
Initial recognition of issued performance guarantees		9	686
Utilisation of provision		(171)	(586)
Carrying amount at 31 December		**17**	**179**

37 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

In thousands of Georgian Lari	Notes	31 December 2018 Asset pledged	31 December 2018 Related liability	31 December 2017 Asset pledged	31 December 2017 Related liability
Investments in debt securities		40,427	38,153	-	-
Mortgage Loan portfolio pledged with NBG		27,309	21,847	-	-
Bonds carried at amortized cost		-	-	39,416	30,000
Total		**67,736**	**60,000**	**39,416**	**30,000**

At 31 December 2018, restricted cash balances are balances of GEL 134 thousand (2017: GEL 130 thousand) are placed as a cover for international payment cards transactions.

In addition, mandatory cash balances with the NBG of GEL 170,444 thousand (2017: GEL 130,824 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations as disclosed in Note 7.

38 Offsetting Financial Assets and Financial Liabilities

At 31 December 2018 and 31 December 2017 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented.

39 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2018				31 December 2017			
In thousands of Georgian Lari	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investments in equity securities	-	63	-	63	-	-	-	-
NON-FINANCIAL ASSETS								
- Premises	-	-	21,345	21,345	-	-	18,961	18,961
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	-	**63**	**21,345**	**21,408**	-	-	**18,961**	**18,961**

39 Fair Value Disclosures (Continued)

(b) Non-recurring fair value measurements

The non-current assets held for sale are measured at FV less cost to sell as of 31 December 2018 and 31 December 2017. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 6,301 thousand (2017: GEL 2,800 thousand).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2018 and 31 December 2017 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2018**	**2017**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	21,345	18,961	Market comparable assets	Price per square meter	Commercial area 3,640-10,831 Office area 2,460-4,100 Garage 1,179-1,591 (3,568)
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**21,345**	**18,961**			

39 Fair Value Disclosures (Continued)

(d) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018				**31 December 2017**			
In thousands of Georgain lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS								
Cash and cash equivalents								
- Cash on hand	32,099	-	-	32,099	30,341	-	-	30,341
- Cash balances with the NBG	-	31,750	-	31,750	-	27,902	-	27,902
- Correspondent accounts and overnight placements	-	68,650	-	68,650	-	81,333	-	81,333
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months					-	15,094	-	15,094
Mandatory balances with the NBG	-	170,443	-	170,443	-	130,824	-	130,824
Investments in debt securities								
-Georgian government treasury bonds	-	107,067	-	106,109				
-Georgian government treasury bills	-	66,948	-	66,850				
-NBG deposit Certificate	-	2,731	-	2,731				
Loans and advances to customers at AC								
- Corporate loans	-	-	679,068	683,919	-	-	594,712	604,695
- Mortgage loans	-	-	142,684	134,980	-	-	110,060	99,049
- Consumer loans	-	-	82,602	77,245	-	-	51,497	49,140
- Credit cards	-	-	4,659	4,659	-	-	4,990	4,990
Bonds carried at amortised cost								
Georgian government treasury bonds					-	88,721	-	87,747
Georgian government treasury bills					-	56,103	-	56,156
NBG deposit Certificate								
Other financial assets	-	5,066	-	5,066	-	1,429	-	1,429
NON-FINANCIAL ASSETS								
- Investment properties	-	-	3,972	1,572	-	-	1,636	1,078
TOTAL	**32,099**	**452,655**	**912,985**	**1,386,073**	**30,341**	**401,406**	**762,895**	**1,189,779**

39 Fair Value Disclosures (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value Total**	**Carry-ing value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value Total**	**Carry-ing value**
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	1	-	1
- Short-term placements of other banks	-	50,155	-	50,155	-	29,963	-	29,963
- Short-term loans of NBG	-	50,039	-	50,039	-	30,018	-	30,018
Customer accounts								
- Current/settlement accounts of state and public organisations	-	128,789	-	128,789	-	151,577	-	151,577
- Term deposits of state and public organisations	-	-	35,638	35,137	-	-	14,387	13,638
- Current/settlement accounts of other legal entities	-	135,716	-	135,716	-	136,051	-	136,051
- Term deposits of other legal entities	-	-	163,226	161,995	-	-	187,130	171,321
- Current/demand accounts of individuals	-	109,751	-	109,751	-	93,866	-	93,866
- Term deposits of individuals	-	-	159,211	156,033	-	-	128,551	111,367
Other borrowed funds								
- Borrowings from International Financial institutions	-	374,476	-	345,782	-	296,617	-	270,270
- Borrowings from government					-	10	-	10
Other financial liabilities	-	6,352	-	6,352	-	7,673	-	7,673
TOTAL	**-**	**855,279**	**358,075**	**1,179,750**	**-**	**745,776**	**330,068**	**1,015,755**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The Group's liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

40 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL. Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables formed a separate category. All of the Group's financial assets at 31 December 2017 fell in the L&R category except for financial derivatives and investment securities available for sale. Derivatives belong to the fair value through profit or loss measurement category and were held for trading. The group held no derivative financial assets as at 31 Decmber 2018 (nil for Decemver 2017).

Investment securities available for sale belong to available-for-sale measurement category. All of the Group's financial liabilities except for derivatives were carried at AC. Derivatives belonged to the FVTPL measurement category and were held for trading.

As of 31 December 2018 and 31 December 2017, all of the Group's financial liabilities were carried at AC.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Georgian Lari	Equity instru-ments at FVOCI	AC	Total
ASSETS			
Cash and cash equivalents	-	**132,500**	**132,500**
Mandatory cash balances with the NBG	-	**170,443**	**170,443**
Investments in debt securities	-	**175,690**	**175,690**
Georgian government treasury bonds	-	106,109	106,109
Georgian government treasury bills	-	66,850	66,850
NBG certificates of deposit	-	2,731	2,731
Investments in equity securities	**63**	**-**	**63**
Loans and advances to customers	-	**900,803**	**900,803**
- Standard lending	-	683,919	683,919
- Mortgage loans	-	134,980	134,980
- Consumer loans	-	77,246	77,246
- Credit cards	-	4,659	4,659
Other financial assets:	-	**5,066**	**5,066**
TOTAL FINANCIAL ASSETS	**63**	**1,384,501**	**1,384,564**

41 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

Included in Investments in subsidiary in Separate Statement of Financial Position are investments in Basis Asset Management Holding LLC, Hualing Insurance JSC and BHL Leasing JSC.

In thousands of Georgian Lari		2018		2017	
Name	**Principal activities**	**Investment**	**Accumulated Profit/(loss)**	**Investment**	**Accumulated Profit/(loss)**
Basis Asset Management – Holding LLC	Asset management	3,796	(52)	3,797	(56)
Hualing Insurance JSC	Insurance	4,300	1,470	4,300	8
BHL Leasing JSC	Leasing	2,000	(3)		
Total		**10,096**	**1,415**	**8,097**	**(48)**

At 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immedi-ate parent company	Supervisory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Loans and advances to customers (contractual interest rate: 4.7% – 16 %)	-	23	-	7	676	261	195
Credit loss allowance at 31 December 2018	-	(1)	-	-	(15)	(9)	(4)
Customer accounts (contractual interest rate: 2% –10%)	386	1,241	9,800	560	2,288	37,486	829

The income and expense with related parties for 2018 other than key management personnel remunuratuion were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immedi-ate parent company	Supervisory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Interest income	-	6	-	21	59	1,455	20
Interest expense	(22)	(33)	(230)	(42)	(145)	(1,649)	(49)
Credit loss allowance	-	-	-	1	(3)	4	1
Gains less losses from trading in foreign currencies	-	5	-	4	-	597	-
Foreign exchange translation gains less losses	-	(23)	(236)	33	(90)	1,498	(16)
Fee and commission income	-	-	-	-	-	5	-
Administrative and other operating expenses	-	-	-	-	(2)	-	(86)

41 Related Party Transactions (Continued)

At 31 December 2018, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immedi-ate parent company	Supervis ory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	1,065	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	1,536	-
Undrawn credit line commitments	-	295	-	160	496	739	18

Aggregate amounts lent to and repaid by related parties during 2018 were:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immedi-ate parent company	Supervisory Board	Manage-ment Board	Companies under common control	Other related parties
Amounts lent to related parties during the year	-	1,042	-	849	332	3,613	-
Amounts repaid by related parties during the year	-	(1,364)	-	(1,253)	(626)	(41,234)	(114)

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate shareholder	Other shareholder	Immediate Parent Company	Supervisory Board	Manage-ment Board	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 4% - 24%)	-		-	1	959	36,424
Impairment provisions for loans and advances to customers at 31 December	-		-	-	(6)	-
Customer accounts (contractual interest rate: 0% - 12.25%)	363	1,007	6,757	1,034	1,845	85,837

The loans advanced to related companies are fully covered with pledged deposits.

41 Related Party Transactions (Continued)

The income and expense items with related parties for 2017 other than key management personnel remunuratuion were as follows:

In thousands of Georgian Lari	Ultimate shareholder	Other shareholder	Immediate Parent Company	Supervisory Board	Manage-ment Board	Companies under common control
Interest income	4	-	-	-	56	910
Interest expense	(25)	(28)	(205)	(47)	(128)	(2,044)
(Provision charge)/Recovery of loan impairment	-	-		-	(1)	245
Gains less losses from trading in foreign currencies	9	-	1	1	4	603
Foreign exchange translation gains less losses	-	(23)	(75)	14	(4)	1,087
Administrative and other operating expenses	-	-	-	-	-	(71)

At 31 December 2017, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate Shareholders	Supervisory Board	Management Board	Companies under common control
Performance Guarantees issued by the Group at the year end	-	-	-	452
Financial Guarantees issued by the Group at the year end	-	-	-	1,553
Undrawn credit line commitments	98	38	288	-

Aggregate amounts lent to and repaid by related parties during 2017 were:

In thousands of Georgian Lari	Immediate Parent Company	Supervisory Board	Management Board	Companies under common control
Amounts lent to related parties during the year	275	-	621	45,654
Amounts repaid by related parties during the year	(733)	-	(453)	(12,723)

41 Related Party Transactions (Continued)

Compensation for the members of the Supervisory Board is presented below:

In thousands of Georgian Lari	**2018** Expense	**2018** Accrued liability	**2017** Expense	**2017** Accrued liability
Short-term benefits:				
- Salaries	173	-	173	-
Total	**173**	**-**	**173**	**-**

Key management compensation is presented below:

In thousands of Georgian Lari	**2018** Expense	**2018** Accrued liability	**2017** Expense	**2017** Accrued liability
Short-term benefits:				
- Salaries	838	-	837	-
- Short-term bonuses	1,360	837	905	780
Share-based compensation:				
- Equity-settled share-based compensation	488	-	463	-
Total	**2,686**	**837**	**2,205**	**780**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

42 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or AC as described below. Refer to Note 3 for the definition of fair value and AC as well as for description of valuation techniques.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Loans and advances to customers. Loans and advances to customers were carried at AC and impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. If the Group determined that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics, and collectively assessed them for impairment.

The primary factors that the Group considered in determining whether a financial asset was impaired were its overdue status and realisability of related collateral, if any. The following other principal criteria were also used to determine whether there was objective evidence that a credit loss has occurred:

- any instalment was overdue and the late payment could not be attributed to a delay caused by the settlement systems;
- the borrower experienced a significant financial difficulty as evidenced by the borrower’s financial information that the Group obtained;
- the borrower considered bankruptcy or a financial reorganisation;
- there was an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impacted the borrower; or
- the value of collateral significantly decreased as a result of deteriorating market conditions.

For the purposes of a collective evaluation of credit loss, financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for credit loss, were estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts would become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

Credit loss was always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which excluded future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

If the terms of an impaired financial asset held at AC were renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment were measured using the original effective interest rate before the modification of terms. The renegotiated asset were then derecognised and a new asset

42 Accounting Policies applicable before 1 January 2018 (Continued)

were recognised at its fair value only if the risks and rewards of the asset substantially changed. This were normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the credit loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss was reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets were written off against the related credit loss allowance after all the necessary procedures to recover the asset had been completed and the amount of the loss had been determined. Subsequent recoveries of amounts previously written off were credited to credit loss account in profit or loss for the year.

Investments carried at cost. Management could not reliably estimate fair value of the Group's AFS investments in shares of GEL 63 thousand. The investments are carried at a cost. The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

Credit related commitments. Financial guarantees and commitments to provide a loan are initially recognised at fair value and subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities AFS. This classification included investment securities which the Group intended to hold for an indefinite period of time and which might be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities AFS were carried at fair value. Interest income on AFS debt securities was calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on AFS equity instruments were recognised in profit or loss for the year when the Group's right to receive payment was established and it was probable that the dividends would be collected. All other elements of changes in the fair value were recognised in other comprehensive income until the investment was derecognised or impaired, at which time the cumulative gain or loss was reclassified from other comprehensive income to profit or loss for the year. Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities AFS. A significant or prolonged decline in the fair value of an equity security below its cost was an indicator that it was impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – was reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments were not reversed and any subsequent gains were recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for the year.

HTM Securities. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities HTM at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities HTM are carried at AC.

42 Accounting Policies applicable before 1 January 2018 (Continued)

Promissory notes purchased. Promissory notes purchased are included in trading securities, AFS securities, in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Finance lease receivables. Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group used the same principal criteria to determine whether there is objective evidence that an impairment loss had occurred, as for loans carried at AC. Impairment losses were recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflected the cash flows that may result from obtaining and selling the assets subject to the lease.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

43 Abbreviations

The list of the abbreviations used in these consolidated and separate financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
ADR	American Depository Receipt
AFS	Available For Sale
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
GDR	Global Depository Receipt
HTM	Held To Maturity
IFRS	International Financial Reporting Standard
IRB system	Internal Risk-Based system
L&R	Loans and Receivables
LGD	Loss Given Default
LTV	Loan to Value
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SDIA	State Deposit Insurance Agency
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest