BasisBank Group

Consolidated and Separate Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2020

BasisBank Group

Table of Content

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated and Separate Financial Statements for the Year Ended 31 December 2020

Management of JSC BasisBank (the "Bank") is responsible for the preparation of the consolidated and separate financial statements that present fairly the financial position of JSC BasisBank and its subsidiaries (collectively – the "Group") as at 31 December 2020, and the related consolidated and separate statements of profit or loss, comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated and separate financial statements (the "consolidated and separate financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and separate financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated and separate financial statements for the year ended 31 December 2020 were approved by the Management Board of the Group dated 31 March 2021.

On behalf of the Management Board:

David Tsaava
General Director

31 March 2021

Lia Aslanikashvili
Deputy General Director, Finances

31 March 2021

Deloitte & Touche LLC
King David Business Center
12 Merab Aleksidze Street
Tbilisi, 0171,Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
www.deloitte.ge

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC BasisBank

Opinion

We have audited the consolidated and separate financial statements of JSC BasisBank (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Bank as at 31 December 2020, 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 ("IFRSs").

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 Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated and separate financial statements of the Group and the Bank for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Banks'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 to cease operations, or has no realistic alternative but to do so.

Deloitte.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 and separate 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.

Stuart Leighton

Stuart Leighton
On Behalf of Deloitte & Touche LLC

Deloitte & Touche

Tbilisi, Georgia
31 March 2021

BasisBank Group

Consolidated and Separate Statements of Financial Position
As at 31 December 2020

In thousands of Georgian Lari	Note	31 December 2020 Bank Separate	31 December 2020 Consoli-dated	31 December 2019 Bank Separate	31 December 2019 Consoli-dated
ASSETS					
Cash and cash equivalents	0	403,190	405,089	246,711	248,700
Mandatory cash balances with the NBG	8	198,238	198,238	177,989	177,989
Due from other banks	9	-	13,424	-	7,186
Investments in debt securities	10	285,333	285,633	202,269	202,569
Investments in equity securities	0	63	63	63	63
Investment in subsidiaries	44	20,796	-	13,097	-
Loans and advances to customers	12	1,075,253	1,075,253	984,994	984,994
Finance leases to customers	0	-	5,108	-	3,126
Insurance assets	14	-	5,846	-	8,798
Investment properties	15	-	583	367	959
Current income tax prepayment	0	2,253	2,253	1,472	1,472
Other financial assets	0	1,294	1,334	1,157	1,204
Other assets	17	36,044	38,669	28,293	30,615
Premises and equipment	18	25,796	27,510	26,948	27,016
Intangible assets	18	3,795	3,909	2,033	2,199
Right of use assets	19	4,153	4,153	3,536	3,536
Non-current assets held for sale	20	1,614	1,673	291	486
TOTAL ASSETS		**2,057,822**	**2,068,738**	**1,689,220**	**1,700,912**
LIABILITIES					
Due to other banks	21	304,163	304,163	183,984	183,984
Customer accounts	22	940,377	938,715	770,050	768,870
Other borrowed funds	23	477,012	477,012	428,926	428,926
Lease liabilities	19	4,812	4,812	3,737	3,737
Insurance liabilities	24	-	6,119	-	8,828
Other financial liabilities	25	5,918	6,302	2,151	2,557
Deferred income tax liability	0	3,068	3,075	1,848	1,855
Provisions for liabilities and charges	40	586	586	1,010	1,010
Other liabilities	26	1,978	2,696	2,638	3,097
Subordinated debt	27	16,368	16,368	14,410	14,410
TOTAL LIABILITIES		**1,754,282**	**1,759,848**	**1,408,754**	**1,417,274**
EQUITY					
Share capital	28	16,057	16,057	16,057	16,057
Share premium	28	74,923	74,923	74,923	74,923
Share based payment reserve		1,842	1,842	1,822	1,822
Revaluation reserve for premises		9,165	10,003	9,165	9,165
Revaluation reserve for debt securities at FVOCI	30	173	173	-	-
Retained earnings		201,380	205,892	178,499	181,671
TOTAL EQUITY		**303,540**	**308,890**	**280,466**	**283,638**
TOTAL LIABILITIES AND EQUITY		**2,057,822**	**2,068,738**	**1,689,220**	**1,700,912**

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

BasisBank Group

Consolidated and Separate Statements of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020

		2020		2019	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consoli-dated**	**Bank Separate**	**Consoli-dated**
Interest income calculated using the effective interest method	0	121,705	123,081	114,884	115,468
Interest expense	0	(66,830)	(66,773)	(56,394)	(56,031)
Losses from modification of financial assets measured at amortised cost, that did not lead to derecognition	12	(1,914)	(1,914)	-	-
Net margin on interest and similar income		**52,961**	**54,394**	**58,490**	**59,437**
Credit loss allowance		(9,935)	(10,034)	(1,064)	(1,075)
Net margin on interest and similar income after credit loss allowance		**43,026**	**44,360**	**57,426**	**58,362**
Fee and commission income	32	7,227	7,185	8,473	8,399
Fee and commission expense	32	(3,165)	(3,165)	(3,368)	(3,368)
Net insurance revenue		-	2,652	-	3,132
Net insurance claims incurred		-	(583)	-	(284)
Finance income from leases		-	1,629	-	474
Gains less losses from financial derivatives		(1,243)	(1,243)	-	-
Gains less losses from trading in foreign currencies		4,732	4,732	4,644	4,644
Foreign exchange translation gains less losses		(1,052)	(1,065)	(372)	(372)
Provision for credit related commitments		415	415	(552)	(552)
Other operating income, net	33	2,001	1,967	1,924	1,938
Administrative and other operating expenses	34	(28,656)	(31,197)	(30,358)	(32,442)
Profit before tax		**23,285**	**25,687**	**37,817**	**39,931**
Income tax expense	35	(1,240)	(1,466)	(2,288)	(2,604)
PROFIT FOR THE YEAR		**22,045**	**24,221**	**35,529**	**37,327**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gains less losses arising during the year on debt securities at FVOCI	30	173	173	-	-
Items that will not be reclassified to profit or loss:					
Revaluation of premises	30	838	838	-	-
Other comprehensive income for the year		**1,011**	**1,011**	-	-
Total comprehensive income for the year		**23,056**	**25,232**	**35,529**	**37,327**

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 1 January 2019		**16,057**	**74,923**	**1,339**	**-**	**9,284**	**147,931**	**249,536**
Profit for the year		-	-	-	-	-	37,327	37,327
Other comprehensive income	30	-	-	-	-	-	-	-
Total comprehensive income for 2019		-	-	-	-	-	37,327	37,327
Share Based Payment accruals	29	-	-	483	-	-	-	483
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(119)	140	21
Dividends declared	36	-	-	-	-	-	(3,729)	(3,729)
Balance at 31 December 2019		**16,057**	**74,923**	**1,822**	**-**	**9,165**	**181,671**	**283,638**
Profit for the year		-	-	-	-	-	24,221	24,221
Other comprehensive income	30	-	-	-	173	838	-	1,011
Total comprehensive income for 2020		-	-	-	173	838	24,221	25,232
Share Based Payment accruals	29	-	-	20	-	-	-	20
Balance at 31 December 2020		**16,057**	**74,923**	**1,842**	**173**	**10,003**	**205,892**	**308,890**

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

Separate Statement of Changes in Equity for the Year Ended 31 December 2020

In thousands of Georgian Lari	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for securities at FVOCI	Revaluation reserve for premises	Retained earnings	Total Equity
Balance at 1 January 2019		**16,057**	**74,923**	**1,339**	**-**	**9,284**	**146,557**	**248,162**
Profit / (loss) for the year		-	-	-	-	-	35,529	35,529
Other comprehensive income	30	-	-	-	-	-	-	-
Total comprehensive income for 2019		-	-	-	-	-	35,529	35,529
Share Based Payment accruals	28	-	-	483	-	-	-	483
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(119)	140	21
Dividends declared	36	-	-	-	-	-	(3,729)	(3,729)
Balance at 31 December 2019		**16,057**	**74,923**	**1,822**	**-**	**9,165**	**178,499**	**280,466**
Profit for the year		-	-	-	-	-	22,045	22,045
Other comprehensive income	30	-	-	-	173	838	-	1,011
Total comprehensive income for 2020		-	-	-	173	838	22,045	23,056
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(838)	838	-
Share Based Payment accruals	28	-	-	20	-	-	-	20
Balance at 31 December 2020		**16,057**	**74,923**	**1,842**	**173**	**9,165**	**201,380**	**303,540**

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

Consolidated and Separate Statements of Cash Flow for the Year Ended 31 December 2020

		2020		2019	
In thousands of Georgian Lari	**Note**	**Bank Separate**	**Consoli-dated**	**Bank Separate**	**Consoli-dated**
Cash flows from operating activities					
Interest income calculated using the effective interest method received		111,816	113,192	114,256	115,872
Interest paid calculated using the effective interest method		(70,286)	(70,229)	(55,536)	(55,173)
Fees and commissions received		7,298	7,256	8,473	8,399
Fees and commissions paid		(3,165)	(3,165)	(3,368)	(3,368)
Income received from financial derivatives		(1,243)	(1,243)	-	-
Income received from trading in foreign currencies		4,732	4,719	4,644	4,644
Other operating income received		1,506	1,472	1,924	905
Cash inflow from insurance		-	3,907	-	3,818
Cash outflow from insurance		-	(1,486)	-	(801)
Finance income from leases		-	1,629	-	474
Proceeds from disposal of foreclosed properties		3,615	3,615	5,425	5,425
Staff costs paid		(17,592)	(19,348)	(17,275)	(18,912)
Administrative and other operating expenses paid		(8,294)	(8,911)	(10,414)	(10,774)
Income tax paid		(800)	(1,027)	(3,625)	(4,215)
Cash flows from operating activities before changes in operating assets and liabilities		**27,587**	**30,381**	**44,504**	**46,294**
Net (increase)/decrease in:					
- due from other banks and mandatory cash balances with NBG		10,809	4,571	7,594	408
- loans and advances to customers		961	961	(41,859)	(44,996)
- Insurance assets		-	1,697	-	(5,290)
- other financial assets		148	(1,926)	-	-
- other assets		(12,362)	(12,637)	(22,367)	(22,184)
Net increase/(decrease) in:					
- due to other banks		116,647	116,647	(9,081)	(9,081)
- customer accounts		88,263	87,780	2,211	2,212
- other financial liabilities		3,013	2,991	1,219	1,625
- insurance liabilities		-	(1,806)	-	4,815
- other liabilities		441	552	81,942	87,668
Net cash from operating activities		**235,507**	**229,211**	**64,163**	**61,471**
Cash flows from investing activities					
Injection of cash in subsidiary		(6,262)	-	(3,000)	-
Proceeds from disposal/redemption of debt securities	10	114,937	114,937	14,542	14,542
Acquisition of debt securities	10	(192,780)	(192,780)	(41,198)	(41,680)
Acquisition of premises and equipment	18	(952)	(989)	(2,524)	(2,524)
Proceeds from disposal of premises and equipment	18	9	9	-	-
Disposal of investment properties	15	358	367	670	606
Acquisition of intangible assets	18	(2,223)	(2,251)	(999)	(999)
Net cash used in investing activities		**(86,913)**	**(80,707)**	**(32,509)**	**(30,055)**

Consolidated and Separate Statements of Cash Flow
for the Year Ended 31 December 2020

		2020		2019	
In thousands of Georgian Lari	Note	Bank Separate	Consoli-dated	Bank Separate	Consoli-dated
Cash flows from financing activities					
Proceeds from other borrowed funds	23	253,971	253,971	290,934	290,934
Repayment of other borrowed funds	23	(267,174)	(267,174)	(217,290)	(217,290)
Proceeds from subordinated debt		-	-	14,383	14,383
Dividends paid		-	-	(3,729)	(3,729)
Repayment of principal of lease liabilities		(1,461)	(1,461)	(1,168)	(1,168)
Net cash used in financing activities		**(14,664)**	**(14,664)**	**83,130**	**83,130**
Effect of exchange rate changes on cash and cash equivalents		**22,549**	**22,549**	**1,655**	**1,655**
Net increase in cash and cash equivalents		**156,479**	**156,389**	**116,439**	**116,201**
Cash and cash equivalents at the beginning of the year		246,711	248,700	130,272	132,499
Cash and cash equivalents at the end of the year	7	**403,190**	**405,089**	**246,711**	**248,700**

During the years ended December 31, 2020 and December 31, 2019 the Group performed the following non-cash transactions. These non-cash transactions were excluded from the consolidated statement of cash flows and presented separately below:

	2020	2019
Loans to customers settled by means of collateral repossession	7,782	11,894
Investment in Subsidiary in a form of PPE	1,714	-

Approved for issue and signed on 31 March 2021.

David Tsaava
General Director

Lia Aslanikashvili
Deputy General Director, Finances

The notes set out on the pages 10-135 form an integral part of these consolidated and separate financial statements

1 Introduction

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 for JSC BasisBank (the "Bank") and its subsidiaries (together the "Group").

The Bank was incorporated and is domiciled in Georgia, registered at 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 2020 and 2019 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	**2020**	**2019**
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 Georgian law on "Deposits insurance system" dated 17 May 2017. The Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to GEL 15,000 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 24 (2019: 24) branches within Georgia. The Group had 470 employees at 31 December 2020 (2019: 550 employees), of which 433 are the bank's employees and 37 of the subsidiaries (2019: 510 related to the Bank and 40 to the subsidiaries).

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

Presentation currency. These consolidated and separate financial statements are presented in Georgian lari ("GEL"), unless otherwise stated.

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

Name	Country of incorporation	Principal activities	Ownership % at 31 December	
			2020	**2019**
Basis Asset Management – Holding LLC	Georgia	Asset management	100%	100%
BB Insurance JSC	Georgia	Insurance	100%	100%
BB 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. The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The capital of Basis Asset Management – Holding LLC as at 31 December 2020 was GEL 3.8 million (2019 GEL 3.8 million).

BB Insurance JSC (former Hualing Insurance JSC) 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 capital of BB Insurance as at 31 December 2020 was GEL 6 million (2019: GEL 4.3 million). The Company has a life and non-life licenses issued by the Insurance State Supervision Service of Georgia since 27 December 2017.

The registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia.

BB Leasing JSC (former BHL Leasing JSC) 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 registered address is: #1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The Bank establish leasing subsidiary in December 2018, the capital BB Leasing as at 31 December 2020 was GEL 11 million (2019: GEL 5 million). The offers 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 44.

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 separate 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 0 provides more information of how the Group incorporated forward-looking information in the ECL models.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Following to COVID-19 outbreak in Georgia early in March 2020 emergency state was announced by the Government of Georgia (“GoG”) resulted in disruption of business operations, interruption and closure of some facilities in services sectors, quarantines of personnel, reduced demand.

As the virus continued to spread in Georgia the Group took all necessary measures to follow all recommendations and adhere to safety measures of Ministry of Health and GoG. The financial sector continued unhindered service to customers, depositors and borrowers. The banking sector have agreed with the National Bank of Georgia (“NBG”) to grant grace period to certain retail customers and businesses engaged in sectors most impacted by the crisis and to postpone the current scheduled payments until the end of the crisis.

The situation affects Georgia’s economy through various channels, the most negative impact was on tourism sector, trade, HORECA. The GoG in consultations with Banks, NBG and business associates elaborated solutions to help affected businesses in restructuring their obligations. The measures also include tax benefits, loan restructuring, subsidizing interest payments, elaborating new financial facilities to support the sectors recovery.

NBG introduced facilitating incentives to support the banking sector with liquidity sources and eased the regulatory pressure on capital requirements by partially releasing Tier 2 capital buffers to prevent the Banks from regulatory breach.

The depreciation of Georgian “Lari” against US “Dollar” triggered deterioration of portfolios adding additional burden on the qualitative metrics of the Banks’ financial positions.

COVID-19 caused great uncertainty on the worlds’ markets and greatly affected Georgia’s economy as it is strongly dependent on the external markets.

The Group may face increasing negative impact of COVID-19 as a result of its continued effect on global and local economies and financial markets. The significance of impact of COVID-19 on the Group’s businesses largely depends on duration and incidence of the pandemic on the world and Georgian economy.

To assess possible impact of COVID-19 pandemic, the Bank has performed the analysis of its portfolio under stress scenarios defined by the national regulator (NBG), scenarios were provided for both retail and business portfolios. Portfolio reviewed under the stress conditions included following sectors: Real estate development and Real estate management, Hospitality (Hotels, Restaurants, Cafes & Bars and Tourism service), all clients in top 100 borrowers’ groups, as well as randomly selected borrowers from other sectors in Business and Retail portfolio. In Retail segment the selection included those borrowers who requested modification of their loan schedules during the lockdown period. Based on the stress tests results, clients with potential significant increase of credit risk since origination or potential default trigger events have been identified and have been provisioned according to stage 2 or stage 3 provisioning rules. For details on Stage 2 and Stage 3 provisioning rules please refer to Note 0.

Forward-looking information used in ECL assessment process had been also modified according to the macroeconomic forecasts published by NBG.

As a result of modifications GEL additional ECL provisions have been booked in 2020 either on individual borrower level or incorporated in the macroeconomic scenarios. Gross portfolio ECL coverage increased from 1.54% at 31 December 2019 to 2.34% at 31 December 2020 (ca. 51% increase).

Payment holiday doesn’t affect ECL assessment process in the Bank, as the allocation of loans to stages and calculation of provisions is done using current as well as maximum overdue days during last twelve months.

Regulatory capital adequacy ratio (“CAR”) moderated after additional provisions booked under NBG standards by 2.8% but subsequently was recovered with the operating income generated during the year. As at 31 December 2020 the Bank reports 5.2% capital adequacy ratios over current requirements. The Bank’s financial standing as of capital and liquidity are disclosed in Notes 0 and 39.

3 Significant Accounting Policies

Basis of preparation. These consolidated and separate financial statements (hereafter the “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 at fair value, and by the revaluation of premises, 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 financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

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

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.

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 subsidiaries 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.

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 (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. 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 42.

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 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 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.

The Group uses discounted cash flow valuation techniques to determine the fair value of Foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. If any differences remain after calibration of model inputs, such differences are initially recognised within other assets or other liabilities and are subsequently amortised on a straight line basis over the term of the Foreign exchange forwards. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

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 0 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. Refer to Note 0 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

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 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 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 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 0 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 0. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 0 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.

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 0.

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 2,266 thousand as of 31 December 2020 (31 December 2019: higher by GEL 1,371 thousand).

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Groups' loans and finance lease receivables include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

The instruments that failed the SPPI test are measured at FVTPL.

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 derecognition 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 – derecognition. 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 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 considerably, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. 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 – derecognition. 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. 3 Significant Accounting Policies (Continued)

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.

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 non-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 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.

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 0 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 remeasured 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 realizable 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.

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.

Depreciation. Land and construction in progress are not depreciated. Depreciation of other items of premises is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives 50 years.

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

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. The Group has conducted appropriate appraisal of 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 to ensure that the fair value of the property has not changed significantly to lead to revaluation and is satisfied that sufficient market based evidence is available to support the current 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 of other items of premises and equipment and right-of-use assets 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
ATM	10
Leasehold improvements	1 to 5
Motor vehicles	5
Right-of-use assets	1 to 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. 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 *licences*. 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.

Capitalised costs include costs of the software development service made by external contractors. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software without functional maturity is amortised on a straight line basis over expected useful lives of 10 years. Licenses without functional maturity is amortised on a straight line basis over expected useful lives of 8 years.

Accounting for leases by the Group as a lessee from 1 January 2019. The Group leases office and premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Group accounts for short-term leases and leases of low value assets of GEL 15 thousand and less by recognising the lease payments as an operating expense on a straight line basis.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Group as a lessee prior to 1 January 2019. 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.

Accounting for operating leases by the Group as a lessor. 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.

Accounting for finance leases by the Group as a lessee prior to 1 January 2019. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of 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 lease is recorded as a separate line in profit or loss and other comprehensive income statement.

Credit loss allowance is recognised in accordance with the general ECL model using a simplified approach at lifetime ECL. 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.

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 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.

Other borrowed funds*.* Other borrowed funds include lending from international and local financial institutions that are carried at AC.

Subordinated debt*.* Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met. Subordinated debt is carried at AC.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, currency and interest rate swaps, 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 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 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.

Tax deduction for lease payments is allocated to depreciation of right of use asset and interest cost on the lease liability. As a result, no temporary differences arise upon initial recognition of a new lease where the Group is a lessee.

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.

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.

IBNR. The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. Reserve is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid. The Group makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using actuarial method for life insurance. The primary underlying assumption of the method are mortality rates in Georgia, maximum delay period for reporting of claims and monthly probability of claim identification.

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 2020, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 3.2766 (2019: USD 1 = GEL 2.8677), EUR 1 = GEL 4.0233 (2019: USD 1 = GEL 3.2095).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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, contributions to the Pension agency, 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. 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.

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 derecognition 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 derecognition 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.

When as a result of qualitative analysis, the Bank did not identify any criteria that leads to derecognition, additional quantitative test needs to be performed. Doing so, a modification is generally deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the financial asset prior to the modification, both discounted at the original effective interest rate of the financial asset prior to the modification.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Write-off policy. 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. 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.

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 42.

Finance leases and derecognition of financial assets. In assessing transfers of financial assets and classification of leases of non-financial assets to third parties, management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and leased assets are

transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions.

The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note44.

Accounting for subordinated loans from Shareholder. The shareholder ("Xinjiang Hualing Industry & Trade (Group) Co Ltd') provided subordinated loans to the group of USD 4,900 thousand, bearing a fixed interest rate of 7% per annum payable annually until maturity on 2026.

The loan was originally recognised and is subsequently carried on the statement of financial position at amortised contractual value. Terms and conditions of related party balances are disclosed in note 44.

Significant Accounting Policies (Continued)

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 accordance with contractual maturity. Refer to Note 0 for analysis of financial instruments by their 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 of the consolidated statement of financial position that are not analysed in Note 0.

	December 31, 2020			**December 31, 2019**		
	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	405,089	-	405,089	248,700	-	248,700
Mandatory cash balances with the NBG	198,238	-	198,238	177,989	-	177,989
Due from other banks	13,424	-	13,424	7,186	-	7,186
Investments in debt securities	127,361	158,272	285,633	85,901	116,668	202,569
Investments in equity securities	-	63	63	-	63	63
Loans and advances to customers	361,037	714,216	1,075,253	331,298	653,696	984,994
Finance leases to customers	125	4,983	5,108	149	2,977	3,126
Insurance assets	5,846	-	5,846	8,798	-	8,798
Investment properties	-	583	583	-	959	959
Current income tax prepayment	2,253	-	2,253	1,472	-	1,472
Other financial assets	1,172	162	1,334	1,061	143	1,204
Other assets	5,201	33,468	38,669	1,332	29,283	30,615
Premises and equipment	-	27,510	27,510	-	27,016	27,016
Intangible assets	-	3,909	3,909	-	2,199	2,199
Right of use assets	-	4,153	4,153	-	3,536	3,536
Non-current assets held for sale	1,673	-	1,673	486	-	486
TOTAL ASSETS	**1,121,419**	**947,319**	**2,068,738**	**864,372**	**836,540**	**1,700,912**
LIABILITIES						
Due to other banks	304,163	-	304,163	183,984	-	183,984
Customer accounts	848,563	90,152	938,715	717,211	51,659	768,870
Other borrowed funds	281,493	195,519	477,012	235,880	193,046	428,926
Lease Liabilities	949	3,863	4,812	3,737	-	3,737
Insurance Liabilities	6,119	-	6,119	8,828	-	8,828
Other financial liabilities	6,092	210	6,302	2,557	-	2,557
Deferred income tax liability	-	3,075	3,075	-	1,855	1,855
Provisions for liabilities and charges	586	-	586	1,010	-	1,010
Other liabilities	2,696	-	2,696	3,097	-	3,097
Subordinated debt	-	16,368	16,368	-	14,410	14,410
TOTAL LIABILITIES	**1,450,661**	**309,187**	**1,759,848**	**1,156,304**	**260,970**	**1,417,274**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the 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 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 0. 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, primarily an outcome of 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 2020:

		Assigned	**Assumption for:**		
Variable	**Scenario**	**weight**	**2021**	**2022**	**2023**
CPI Inflation %	Base	50%	3.00%	3.00%	3.00%
	Upside	25%	4.00%	3.00%	3.00%
	Downside	25%	6.00%	2.50%	2.50%
Real GDP Growth rate %	Base	50%	5.00%	4.50%	4.50%
	Upside	25%	6.00%	5.00%	5.00%
	Downside	25%	1.00%	4.00%	4.00%
Nominal Effective Exchange Rate NEER (1995=100)	Base	50%	252.00	252.00	252.00
	Upside	25%	259.60	267.30	267.30
	Downside	25%	222.40	229.10	229.10
Real Estate price index in GEL (YoY	Base	50%	100.00	103.00	103.00
	Upside	25%	103.00	103.00	103.00
	Downside	25%	100.00	105.00	105.00
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	100.00	100.00	100.00
	Upside	25%	95.00	95.00	95.00
	Downside	25%	110.00	95.00	95.00
Unemployment (%)	Base	50%	16.60%	16.30%	16.00%
	Upside	25%	16.10%	15.40%	15.10%
	Downside	25%	17.60%	18.60%	18.60%
Country Sovereign risk premium in%	Base	50%	2.75%	2.75%	2.75%
	Upside	25%	2.70%	2.70%	2.70%
	Downside	25%	2.90%	2.90%	2.85%

The assumptions and assigned weights were as follows at 31 December 2019:

Variable	Scenario	Assigned weight	Assumption for: 2020	2021	2022
CPI Inflation %	Base	50%	4.00%	2.50%	3.00%
	Upside	25%	3.50%	3.00%	3.00%
	Downside	25%	5.00%	4.00%	3.00%
Real GDP Growth rate %	Base	50%	4.50%	5.00%	5.00%
	Upside	25%	5.50%	5.50%	5.00%
	Downside	25%	2.50%	4.00%	4.50%
Nominal Effective Exchange Rate NEER (1995=100)	Base	50%	260.10	264.80	269.50
	Upside	25%	271.10	276.50	276.50
	Downside	25%	233.00	240.00	247.20
Real Estate price index in GEL (YoY	Base	50%	104.00	102.50	103.00
	Upside	25%	103.50	103.00	103.00
	Downside	25%	97.00	103.00	103.00
GEL/USD Nominal Exchange Rate (YoY)	Base	50%	97.00	97.00	97.00
	Upside	25%	90.00	97.00	100.00
	Downside	25%	115.00	95.00	95.00
Country Sovereign risk premium in%	Base	50%	2.50%	2.50%	2.50%
	Upside	25%	2.50%	2.50%	2.50%
	Downside	25%	4.00%	2.50%	2.50%

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 104 thousand at 31 December 2020 (31 December 2019: by GEL 138 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by GEL 61 thousand at 31 December 2020 (31 December 2019: by GEL 6 thousand).

A 10% increase in PD estimates would result in an increase in total expected credit loss allowances of GEL 80 thousand at 31 December 2020 (31 December 2019: GEL 311 thousand). A 10% decrease in PD estimates would result in an decrease in total expected credit loss allowances of GEL 79 thousand at 31 December 2020 (31 December 2019: GEL 307 thousand).

A 10% increase in LGD estimates would result in an increase in total expected credit loss allowances of GEL 740 thousand at 31 December 2020 (31 December 2019: GEL 863 thousand). A 10% decrease in LGD estimates would result in a decrease in total expected credit loss allowances of GEL 740 thousand at 31 December 2020 (31 December 2019: GEL 716 thousand).

The Bank applies LGD floor to estimated LGD value. A 10% increase or decrease in LGD floor value would result in an increase or decrease in total expected credit loss allowances of GEL 137 thousand at 31 December 2020 (31 December 2019: increase or decrease by GEL 258 thousand).

Premises valuation. Premises are stated revalued amounts and 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. Premises have been revalued at fair value in December 2018 by an independent firm of valuers. As at the reporting date the Group has performed internal valuation and concluded that the carrying amounts of premises are not significantly different from their fair values. 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.

Repossessed assets valuation. All repossessed assets is measured at the lower of cost or net realisable value. The Group performs regular internal valuations to make sure that the carrying amount is not higher than the net realisable value. Valuations are based on available information on market prices, for repossessed real estate on market prices per squatter meter.

Insurance contract liabilities. Major assumptions refer to uncertainty regarding insurance contract liabilities. For insurance contract provisions estimates have to be mostly for unearned premium and claims ("UPR") and for the expected ultimate cost of claims incurred but not yet reported at the reporting date ("IBNR"). The Group makes estimates of UPR and IBNR claims reserves on an undiscounted basis. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, UPR reserve form a significant part of the insurance contract liabilities. Adoption of New or Revised Standards and Interpretations

5 Adoption of New or Revised Standards and Interpretations

The following amendments and interpretations are effective for the Group effective January 1, 2020:

Amendments to IFRS 9, IFRS 7	Basic interest rate reform
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Materiality
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards
Amendments to IFRS 16	Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

The above standards and interpretations were reviewed by the Group's management, but did not have a significant effect on the consolidated financial statements of the Group.

The Group also early adopted the amendment to IFRS 16 COVID-19 Related Rent Concessions. This amendment is effective for annual reporting periods beginning on or after 1 June 2020. Applied retrospectively in accordance with IAS 8, but does not require revise prior periods.

Amendments to IFRS 3 Definition of a business: The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

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.

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.

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16: In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

1) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
3) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

Impact on accounting for changes in lease payments applying the exemption

The Group has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B, and has not restated prior period figures.

The Group has benefited from a temporal monthly payment reduction in total GEL 61 thousand in 2020.

6 New Accounting Pronouncements

New and revised IFRS Standards in issue but not yet effective: At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
Amendments to IAS 1 (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)	Classification of Liabilities as Short-Term or Long-Term
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 3	Business combinations - Reference to the Conceptual Framework
Amendments to IAS 16	Property and equipment - Proceeds before Intended Use
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16.	Annual Improvements to IFRS 2018-2020 cycles

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 17 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after January 1, 2023 (previously – on or after January 1, 2021).

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 1 Classification of Liabilities as Short-Term or Long-Term (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles). The amendments are intended to facilitate the understanding that a liability is classified as long-term if the organization expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under the existing credit line with the previous lender, on equal or similar terms.

The amendments only amend the presentation of liabilities in the statement of financial position, i.e. not regarding the amount, the moment of recognition or disclosure of information.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer repayment of a liability for at least 12 months. Thus, the amendments explicitly indicate that only those rights that exist "at the end of the reporting period" should affect the classification of the liability. Moreover, the classification does not depend on expectations as to whether the organization will use the right to defer repayment of the liability, which means transferring funds, equity instruments, or other assets or services to a counterparty.

The amendments apply retrospectively to the periods beginning on or after January 1, 2023. Early application is acceptable.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2. The changes in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) relate to the impact of the interest rate benchmark reform on the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

Modification of financial assets, financial liabilities and lease liabilities. The IASB introduces a practical expedient for changes in contractual cash flows as a direct consequence of the interest rate benchmark reform provided that the new cash flow basis is economically equivalent to the original basis According to the practical exception these modifications are accounted prospectively for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

Disclosures. The amendments require that an entity discloses additional information in order to allow users to understand the nature and extent of risks arising from the IBOR and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments are effective for annual periods beginning on or after 1 January 2021 and are to be applied retrospectively. Early application is permitted. Restatement of prior periods is not required, however, an entity may restate prior periods if, and only if, it is possible without the use of hindsight.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods.

Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date has yet to be set; however, earlier application of the amendments is permitted.

The management of the Group does not expect that the application of these amendments could have an impact on the Group's financial statements in future periods should such transactions occur.

Annual Improvements to IFRS 2018-2020 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions or contradictions between the requirements in the standards.

The amendments to IFRS 3 Business Combinations update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.

Amendments to IAS 16 Property, Plant and Equipment prohibit deducting from the value of property, plant and equipment the amounts received from the sale of manufactured goods while preparing the asset for its intended use. Instead, these sales revenue and related costs are recognized in profit or loss.

Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" determine the costs to be included in assessing whether the contract is unprofitable.

Annual improvements introduce minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and illustrative examples accompanying IFRS 16 "Leases".

All amendments are effective on January 1, 2022, early application is permitted.

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

7 Cash and Cash Equivalents

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Cash on hand	42,705	37,439
Cash balances with the NBG (other than mandatory reserve deposits)	195,464	41,991
Correspondent accounts and overnight placements with other banks	91,554	56,127
Placements with other banks with original maturities of less than three months	75,945	113,455
Less credit loss allowance	(579)	(312)
Total cash and cash equivalents	**405,089**	**248,700**

The cash and cash equivalent balances under the bank's separate financial statement as at 31 December 2020 amount GEL 403,190 thousand (2019: GEL 246,711 thousand). Subsidiaries attributed GEL 1,905 thousand to the Group's balance at 31 December 2020, (2019: GEL 1,989 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020. Refer to Note 0 for the description of the Group's credit risk grading system. Amounts are presented net of credit loss allowance:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	84,382	75,867	**160,249**
- Good	195,090	6,842	-	**201,932**
- Satisfactory	-	137	-	**137**
- Special monitoring	-	66	-	**66**
Total cash and cash equivalents, excluding cash on hand	**195,090**	**91,427**	**75,867**	**362,384**

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019 is as follows:

In thousands of Georgian Lari	Cash balances with the NBG, excluding mandatory reserves	Correspondent accounts and overnight placements	Placements with other banks, with maturity of less than three months	Total
- Excellent	-	48,439	113,339	161,778
- Good	41,859	7,089	-	48,948
- Satisfactory	-	188	-	188
- Special monitoring	-	90	-	90
- Unrated	-	258	-	258
Total cash and cash equivalents, excluding cash on hand	**41,859**	**56,064**	**113,339**	**211,262**

As at 31 December 2020 there were no significant placement with unrated Georgian banks, (2019: four placement with unrated Georgian banks with aggregate amount of GEL 258 thousand.)

At 31 December 2020 the Group had two counterparty banks (2019: two banks) with aggregated cash and cash equivalent balances above 10% of equity. The total aggregate amount of these balances was GEL 154,709 thousand (2019: GEL 146,536 thousand) or 38% of the cash and cash equivalents (2019: 58%).

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 0 for the ECL measurement approach.

Interest rate analysis of cash and cash equivalents is disclosed in Note 0. Information on related party balances is disclosed in Note 44.

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 2020, Fitch Ratings 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 0 for the ECL measurement approach.

9 Due from Other Banks

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Placements with other banks with original maturities of more than three months	13,424	7,186
Less credit loss allowance	-	-
Total due from other banks	**13,424**	**7,186**

For the purpose of ECL measurement due from other banks balances 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 amounts due from other banks. Refer to Note 0 for the ECL measurement approach.

The credit quality of due from other bank balances based on credit risk grades are as follows:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
- Excellent	3,012	-
- Good	1,812	105
- Not rated	8,600	7,081
Total due from other banks	**13,424**	**7,186**

Due from Other Banks represent term placements of subsidiaries with other Georgian banks.

Refer to Note 42 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 0. Information on related party balances is disclosed in Note 44.

10 Investments in Debt Securities

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Debt securities at FVOCI	23,868	-
Debt securities at AC	261,765	202,569
Total investments in debt securities	**285,633**	**202,569**

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

In thousands of Georgian Lari	Debt securities at FVOCI	Debt securities at AC	Total
Georgian government treasury bonds	23,914	202,793	226,707
Georgian government treasury bills	-	28,191	28,191
Corporate bonds	-	31,390	31,390
Total investments in debt securities (gross carrying value)	**23,914**	**262,374**	**286,288**
Credit loss allowance	(46)	(609)	(655)
Total investments in debt securities (carrying value)	**23,868**	**261,765**	**285,633**

The Bank is participating in Georgian Government Market-making Pilot Program “Primary Dealer”, the participation requires from the eligible participants to comply with the requirements and criteria set by the rules of the program such as regular participation in treasury bond issue auctions and minimum purchase volumes. Debt securities at FVOCI are intended for trading and were purchased with the purpose to participate in the program.

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

In thousands of Georgian Lari	Debt securities at AC	Total
Georgian government treasury bonds	145,393	145,393
Georgian government treasury bills	45,671	45,671
NBG certificates of deposit	12,013	12,013
Total investments in debt securities (gross carrying value)	**203,077**	**203,077**
Credit loss allowance	(508)	(508)
Total investments in debt securities (carrying value)	**202,569**	**202,569**

a) Investments in debt securities at FVOCI

The credit loss allowance and the gross amortised cost amount of Georgian government bonds at FVOCI were originated in 2020 and they have not influenced movements among stages. Refer to Note 0 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 FVOCI.

Movements in the credit loss allowance and in the gross amortised cost amount of Georgian government bonds at FVOCI 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 bonds				
At 31 December 2019	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(46)	(46)	23,564	23,564
Changes in accrued interest	-	-	177	177
Revaluation	-	-	173	173
Total movements with impact on credit loss allowance charge for the period	**(46)**	**(46)**	**23,914**	**23,914**
At 31 December 2020	**(46)**	**(46)**	**23,914**	**23,914**

The debt securities at FVOCI are not collateralized.

b) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2020 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 0 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 2020 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	202,793	202,793
Gross carrying amount	202,793	202,793
Credit loss allowance	(265)	(265)
Carrying amount	**202,528**	**202,528**

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bills		
- Good	28,191	28,191
Gross carrying amount	28,191	28,191
Credit loss allowance	(25)	(25)
Carrying amount	**28,166**	**28,166**
Corporate bonds		
- Good	31,390	31,390
Gross carrying amount	31,390	31,390
Credit loss allowance	(319)	(319)
Carrying amount	**31,071**	**31,071**
Total investments in debt securities measured at AC (gross carrying amount)	**262,374**	**262,374**
Credit loss allowance	(609)	(609)
Total investments in debt securities measured at AC (carrying amount	**261,765**	**261,765**

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2019.

In thousands of Georgian Lari	**Stage 1 (12-months ECL)**	**Total**
Georgian government treasury bonds		
- Good	145,393	145,393
Gross carrying amount	**145,393**	**145,393**
Credit loss allowance	(233)	(233)
Carrying amount	**145,160**	**145,160**
Georgian government treasury bills		
- Good	45,671	45,671
Gross carrying amount	**45,671**	**45,671**
Credit loss allowance	(48)	(48)
Carrying amount	**45,623**	**45,623**
Corporate bonds		
- Good	7,934	7,934
- Satisfactory	4,079	4,079
Gross carrying amount	**12,013**	**12,013**
Credit loss allowance	(227)	(227)
Carrying amount	**11,786**	**11,786**
Total investments in debt securities measured at AC (gross carrying amount)	**203,077**	**203,077**
Credit loss allowance	(508)	(508)
Total investments in debt securities measured at AC (carrying amount	**202,569**	**202,569**

The debt securities at AC as at 31 December 2020 are not collateralised (2019: not collateralised).

At 31 December 2020 debt securities at AC with a carrying value of GEL 215,203 thousand have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds (2019: GEL 99,885 thousand). Refer to Notes 21 and 23. 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 31 December 2019	**(233)**	**(233)**	**145,393**	**145,393**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(93)	(93)	95,269	95,269
Derecognised during the period	27	27	(37,609)	(37,609)
Changes in accrued interest	(1)	(1)	(260)	(260)
Other movements	34	34		
Total movements with impact on credit loss allowance charge for the period	**(33)**	**(33)**	**57,400**	**57,400**
At 31 December 2020	**(266)**	**(266)**	**202,793**	**202,793**
At 31 December 2018	**(205)**	**(205)**	**106,314**	**106,314**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(124)	(124)	64,584	64,584
Derecognised during the period	49	49	(25,385)	(25,385)
Changes in accrued interest	-	-	(418)	(418)
Other movements	47	47	298	298
Total movements with impact on credit loss allowance charge for the period	(28)	(28)	39,079	39,079
At 31 December 2019	**(233)**	**(233)**	**145,393**	**145,393**

10 Investments in Debt Securities (Continued)

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 31 December 2019	**(48)**	**(48)**	**45,671**	**45,671**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(35)	(35)	55,915	55,915
Derecognised during the period	62	62	(77,505)	(77,505)
Changes in accrued interest	(4)	(4)	4,110	4,110
Total movements with impact on credit loss allowance charge for the period	**23**	**23**	**(17,480)**	**(17,480)**
At 31 December 2020	**(25)**	**(25)**	**28,191**	**28,191**
At 31 December 2018	**(119)**	**(119)**	**66,969**	**66,969**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(67)	(67)	58,596	58,596
Derecognised during the period	144	144	(83,967)	(83,967)
Changes in accrued interest	(6)	(6)	4,057	4,057
Other movements	-	-	17	17
Total movements with impact on credit loss allowance charge for the period	**71**	**71**	**(21,297)**	**(21,297)**
At 31 December 2019	**(48)**	**(48)**	**45,671**	**45,671**

Movements in the credit loss allowance and in the gross amortised cost amount of corporate bonds 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**
Corporate bonds				
At 31 December 2019	**(227)**	**(227)**	**12,013**	**12,013**
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(129)	(129)	18,042	18,042
Changes in accrued interest	(3)	(3)	145	145
Other movements	64	64	-	-
Total movements with impact on credit loss allowance charge for the period	**(68)**	**(68)**	**18,187**	**18,187**
Movements without impact on credit loss allowance charge for the period:				
FX and other movements	(24)	(24)	1,190	1,190
At 31 December 2020	**(319)**	**(319)**	**31,390**	**31,390**
At 31 December 2018	-	-	-	-
Movements with impact on credit loss allowance charge for the period:				
New originated or purchased	(215)	(215)	11,385	11,385
Changes in accrued interest	(5)	(5)	277	277
Total movements with impact on credit loss allowance charge for the period	**(220)**	**(220)**	**11,663**	**11,663**
Movements without impact on credit loss allowance charge for the period:				
FX and other movements	(7)	(7)	350	350
At 31 December 2019	**(227)**	**(227)**	**12,013**	**12,013**

11 Investments in Equity Securities

In thousands of Georgian Lari	31 December 2020	31 December 2019
Equity securities at FVOCI	63	63
Total investments in equity securities	**63**	**63**

All of the equity securities are carried at FVOCI.

The Group designated investments disclosed in the following table as equity securities at FVOCI. 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. This designation is irrevocable.

In thousands of Georgian Lari	Fair value at 31 December 2020	Fair value at 31 December 2019
Georgian stock market	6	6
United Clearing centre	57	57
Total investments in equity securities at FVOCI	63	63

At 31 December 2020 securities at FVOCI include equity securities with a carrying value of GEL 63 thousand which are not publicly traded (2019: GEL 63 thousand). 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 42.

12 Loans and Advances to Customers

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Gross carrying amount of loans and advances to customers at AC	1,101,318	1,000,429
Less credit loss allowance	(26,065)	(15,435)
Total carrying amount of loans and advances to customers at AC	**1,075,253**	**984,994**

As at 31 December 2020 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 2020 and 31 December 2019 are disclosed in the table below:

	December 31, 2020			December 31, 2019		
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	**885,338**	**(21,425)**	**863,913**	**796,951**	**(12,465)**	**784,486**
Loans to Large entities	697,923	(17,155)	680,768	635,309	(10,181)	625,128
Loans to SME	187,415	(4,270)	183,145	161,642	(2,284)	159,358
Loans to individuals	**215,980**	**(4,640)**	**211,340**	**203,478**	**(2,970)**	**200,508**
Mortgage loans	153,520	(2,955)	150,565	137,575	(1,351)	136,224
Consumer loans	59,449	(1,514)	57,935	61,540	(1,368)	60,172
Credit cards	3,011	(171)	2,840	4,363	(251)	4,112
Total loans and advances to customers at AC	**1,101,318**	**(26,065)**	**1,075,253**	**1,000,429**	**(15,435)**	**984,994**

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

- Loans issued to large business 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 USD 1 million;

As at December 31, 2020 and 2019 a significant amount of loans (79% and 78% of total loans to customers) is granted to companies and individuals operating and residing in Georgia, which represents a significant geographical concentration in one region.

Mortgage loans with carrying amount of GEL 64,390 thousand and SME loans with carrying amount of GEL 19,017 thousand are pledged for short term loan from NBG at 31 December 2020 (2019: mortgage loans GEL 60,492 thousand and SME loans nil pledged for short-term loans from NBG). Refer to Note 21.

12 Loans and Advances to Customers (Continued)

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

	December 31, 2020			December 31, 2019		
	Carrying value before allowance	Allowance for expected credit losses	Carrying value	Carrying value before allowance	Allowance for expected credit losses	Carrying value
Loans to customers individually determined to be impaired	41,980	(15,294)	26,686	25,473	(8,848)	16,625
Loans to customers collectively determined to be impaired	40,975	(7,494)	33,481	28,096	(3,763)	24,333
Unimpaired loans	1,018,363	(3,277)	1,015,086	946,860	(2,824)	944,036
Total	**1,101,318**	**(26,065)**	**1,075,253**	**1,000,429**	**(15,435)**	**984,994**

The following tables disclose 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 and comparative periods:

	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
Loans to Legal entities								
At 31 December 2019	**(1,770)**	**(394)**	**(10,301)**	**(12,465)**	**667,811**	**89,726**	**39,414**	**796,951**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	1,130	(1,639)	-	(509)	(97,194)	97,194	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,751	445	(8,327)	(6,131)	(31,309)	(23,825)	55,134	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(649)	1,119	51	521	48,240	(47,517)	(723)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	(4,610)	-	-	(4,610)	-	1,329	(1,329)	-
- Changes due to modifications that did not result in derecognition	-	(66)	88	21	(471)	(23)	(73)	(567)
New originated or purchased	(2)	-	(22)	(24)	613,435	-	-	613,435
Repayments	3,179	1,853	5,645	10,677	(715,635)	(96,615)	(35,124)	(847,374)
Other movements*	(656)	(1,961)	(4,323)	(6,939)	202,805	30,477	2,939	236,221

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**
Total movements with impact on credit loss allowance charge for the period	**143**	**(249)**	**(6,888)**	**(6,994)**	**19,871**	**(38,980)**	**20,824**	**1,715**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	46	46	-	-	(46)	(46)
Foreign exchange gains and losses and other movements	(281)	(248)	(1,483)	(2,012)	67,656	12,969	6,093	86,718
At 31 December 2020	**(1,908)**	**(891)**	**(18,626)**	**(21,425)**	**755,338**	**63,715**	**66,285**	**885,338**

12 Loans and Advances to Customers (Continued)

In thousands of Georgian Lari	Credit loss allowance Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Gross carrying amount Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Loans to Legal entities								
At 31 December 2018	**(2,089)**	**(308)**	**(8,580)**	**(10,977)**	**605,721**	**59,627**	**29,549**	**694,897**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	685	(1,528)	-	(843)	(201,455	201,455	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	766	524	(7,647)	(6,357)	(10,438)	(41,437)	51,875	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(432)	500	452	520	84,860	(79,417)	(5,443)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(162)	2,776	2,614	-	17,252	(17,252)	-
New originated or purchased	(2,514)	-	-	(2,514)	647,560	-	-	647,560
Repayments	1,779	762	3,558	6,099	(676,410	(96,831)	(24,153)	(797,394
Other movements*	110	(159)	(285)	(334)	189,551	27,322	1,747	218,620
Total movements with impact on credit loss allowance charge for the period	**394**	**(63)**	**(1,146)**	**(815)**	**33,668**	**28,344**	**6,774**	**68,786**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	2	57	59	-	(2)	(57)	(59)
Foreign exchange gains and losses and other movements	(75)	(25)	(632)	(732)	28,422	1,757	3,148	33,327
At 31 December 2019	**(1,770)**	**(394)**	**(10,301)**	**(12,465)**	**667,811**	**89,726**	**39,414**	**796,951**

*Other movements include additional disbursements on earlier originated loans and utilisation of credit lines reflecting the increase in exposure and changes in reserve rates.

12 Loans and Advances to Customers (Continued)

	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**
Mortgage loans								
At 31 December 2019	**(229)**	**(23)**	**(1,099)**	**(1,351)**	**123,688**	**3,823**	**10,063**	**137,574**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	25	(94)	-	(69)	(5,393)	5,393	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	59	30	(1,031)	(942)	(3,323)	(2,205)	5,528	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(23)	38	14	29	2,282	(2,105)	(177)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	(268)	-	-	(268)	49,432	-	-	49,432
- Changes due to modifications that did not result in derecognition	-	(96)	242	146	-	1,698	(1,698)	-
New originated or purchased	-	-	(4)	(4)	(721)	(42)	(24)	(787)
Repayments	186	26	590	802	(42,811)	(1,560)	(3,276)	(47,647)
Other movements	159	122	(1,419)	(1,138)	4,811	219	576	5,606
Total movements with impact on credit loss allowance charge for the period	**138**	**25**	**(1,608)**	**(1,444)**	**4,277**	**1,398**	**929**	**6,604**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange gains and losses and other movements	(17)	(10)	(133)	(160)	7,914	347	1,081	9,342
At 31 December 2020	**(108)**	**(7)**	**(2,840)**	**(2,955)**	**135,879**	**5,568**	**12,073**	**153,520**

12 Loans and Advances to Customers (Continued)

	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**
Mortgage loans								
At 31 December 2018	**(217)**	**(640)**	**(1,847)**	**(2,704)**	**92,785**	**37,980**	**6,920**	**137,685**
Changes in Assumptions	(564)	564	-	-	34,221	(34,221)	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	119	(181)	-	(62)	(14,242)	14,242	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	7	134	(2,565)	(2,424)	(2,389)	(9,857)	12,246	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(41)	79	212	250	7,688	(5,983)	(1,705)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(26)	688	662	-	3,037	(3,037)	-
New originated or purchased	(227)	-	-	(227)	61,549	-	-	61,549
Repayments	301	20	1,232	1,553	(62,294)	(1,822)	(5,319)	(69,435)
Other movements	416	30	1,215	1,661	2,420	208	480	3,108
Total movements with impact on credit loss allowance charge for the period	**11**	**620**	**782**	**1,413**	**26,953**	**(34,396)**	**2,665**	**(4,778)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	92	92	-	-	(92)	(92)
Foreign exchange gains and losses and other movements	(23)	(3)	(126)	(152)	3,938	251	570	4,759
At 31 December 2019	**(229)**	**(23)**	**(1,099)**	**(1,351)**	**123,676**	**3,835**	**10,063**	**137,574**

12 Loans and Advances to Customers (Continued)

	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**
Consumer loans								
At 31 December 2019	**(346)**	**(24)**	**(998)**	**(1,368)**	**54,509**	**3,271**	**3,760**	**61,540**
Changes in Assumptions								
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	40	(68)	-	(28)	(4,439)	4,439	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	16	71	(638)	(551)	(1,271)	(2,340)	3,611	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(24)	26	22	24	1,096	(1,016)	(80)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(29)	85	56	-	442	(442)	-
- Changes due to modifications that did not result in derecognition	(2)	-	(13)	(15)	(475)	(45)	(40)	(560)
New originated or purchased	(224)	-	-	(224)	34,729	-	-	34,729
Payments	407	45	502	954	(37,340)	(3,129)	(2,053)	(42,522)
Other movements	(187)	(40)	(1,074)	(1,301)	4,374	1,884	321	6,579
Total movements with impact on credit loss allowance charge for the period	**26**	**5**	**(1,116)**	**(1,085)**	**(3,326)**	**235**	**1,317**	**(1,774)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	949	949	-	-	(949)	(949)
Foreign exchange gains and losses and other movements	-	(1)	(9)	(10)	442	69	121	632
At 31 December 2020	**(320)**	**(20)**	**(1,174)**	**(1,514)**	**51,625**	**3,575**	**4,249**	**59,449**

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 31 December 2018	**(398)**	**(151)**	**(1,210)**	**(1,759)**	**63,512**	**11,532**	**3,960**	**79,004**
Changes in Assumptions	(116)	116	-	-	8,431	(8,431)	-	-
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	68	(107)	-	(39)	(9,024)	9,024	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	5	73	(1,802)	(1,724)	(640)	(5,746)	6,386	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(16)	26	(194)	(184)	2,312	(2,006)	(306)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(8)	197	189	-	846	(846)	-
New originated or purchased	(249)	-	-	(249)	45,284	-	-	45,284
Payments	338	30	1,018	1,386	(58,714)	(2,636)	(4,884)	(66,234)
Other movements	24	(8)	(42)	(26)	2,942	578	399	3,919
Total movements with impact on credit loss allowance charge for the period	**54**	**122**	**(823)**	**(647)**	**(9,409)**	**(8,371)**	**749**	**(17,031)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	6	1,049	1,055	-	(6)	(1,049)	(1,055)
Foreign exchange gains and losses and other movements	(2)	(1)	(14)	(17)	406	116	100	622
At 31 December 2019	**(346)**	**(24)**	**(998)**	**(1,368)**	**54,509**	**3,271**	**3,760**	**61,540**

12 Loans and Advances to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
In thousands of Georgian Lari	**Stage 1 (12-onths 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 31 December 2019	**-**	**(38)**	**(213)**	**(251)**	**-**	**4,031**	**332**	**4,363**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	7	(5)	-	2	(405)	405	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	121	1	(173)	(51)	(403)	(127)	530	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(15)	13	-	(2)	1,688	(1,688)	(1)	-
New originated or purchased	(136)	-	-	(136)	1,804	-	-	1,804
Payments	26	292	123	441	(2,291)	(19,648)	(252)	(22,191)
Other movements	(19)	(531)	(188)	(738)	1,589	18,467	40	20,096
Total movements with impact on credit loss allowance charge for the period	**(16)**	**(230)**	**(238)**	**(484)**	**1,982**	**(2,591)**	**317**	**(292)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	262	302	564	-	(262)	(302)	(564)
Foreign exchange gains and losses and other movements	(1)		1	-	32	(529)	1	(496)
At 31 December 2020	**(17)**	**(6)**	**(148)**	**(171)**	**2,014**	**649**	**348**	**3,011**

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 31 December 2018	**-**	**(40)**	**(167)**	**(207)**	**-**	**4,629**	**237**	**4,866**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	34	(34)	-	-	(2,825)	2,825	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	192	8	(459)	(259)	(538)	(631)	1,169	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	(65)	(65)	3	(1)	(2)	-
to lifetime (from Stage 3 credit impaired to Stage 2)	-	(7)	264	257	-	591	(591)	-
New originated or purchased	(226)	-	-	(226)	3,357	-	-	3,357
Payments	-	89	170	259	(2)	(7,622)	(468)	(8,092)
Other movements	-	(54)	(172)	(226)	1	3,684	202	3,887
Total movements with impact on credit loss allowance charge for the period	**-**	**2**	**(262)**	**(260)**	**(4)**	**(1,154)**	**310**	**(848)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	218	218	-	-	(218)	(218)
Foreign exchange gains and losses and other movements	-	-	(2)	(2)	4	557	2	563
At 31 December 2019	**-**	**(38)**	**(213)**	**(251)**	**-**	**4,032**	**331**	**4,363**

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

The provision for impairment 2020 differs from the amount presented in profit or loss for the year due to recovery of amounts equal to GEL 468 thousand, previously written off as uncollectible (2019: GEL 1,066 thousand). 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 0. 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;
- Write-offs of allowances related to assets that were written off during the period.

The following tables contain analyses 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 Legal entities carried at amortised cost is as follows at 31 December 2020:

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**
Loans to legal entities				
- Excellent	77,902	-	-	77,902
- Good	677,436	-	-	677,436
- Satisfactory	-	63,229	-	63,229
- Special monitoring	-	486	-	486
- Default	-	-	66,285	66,285
Gross carrying amount	**755,338**	**63,715**	**66,285**	**885,338**
Credit loss allowance	(1,908)	(891)	(18,626)	(21,425)
Carrying amount	**753,430**	**62,824**	**47,659**	**863,913**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

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
Loans to legal entities				
- Excellent	24,071	-	-	24,071
- Good	643,740	-	-	643,740
- Satisfactory	-	89,081	-	89,081
- Special monitoring	-	645	-	645
- Default	-	-	39,414	39,414
Gross carrying amount	**667,811**	**89,726**	**39,414**	**796,951**
Credit loss allowance	(1,770)	(394)	(10,301)	(12,465)
Carrying amount	**666,041**	**89,332**	**29,113**	**784,486**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2020:

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	3,218	-	-	3,218
- Good	132,661	-	-	132,661
- Satisfactory	-	5,124	-	5,124
- Special monitoring	-	444	-	444
- Default	-	-	12,073	12,073
Gross carrying amount	**135,879**	**5,568**	**12,073**	**153,520**
Credit loss allowance	(108)	(7)	(2,840)	(2,955)
Carrying amount	**135,771**	**5,561**	**9,233**	**150,565**
Consumer loans				
- Excellent	3,648	-	-	3,648
- Good	47,977	-	-	47,977
- Satisfactory	-	3,156	-	3,156
- Special monitoring	-	419	-	419
- Default	-	-	4,249	4,249
Gross carrying amount	**51,625**	**3,575**	**4,249**	**59,449**
Credit loss allowance	(320)	(20)	(1,174)	(1,514)
Carrying amount	**51,305**	**3,555**	**3,075**	**57,935**
Credit cards				
- Excellent	-	-	-	-
- Good	2,014	-	-	2,014
- Satisfactory	-	649	-	649
- Special monitoring	-	-	-	-
- Default	-	-	348	348
Gross carrying amount	**2,014**	**649**	**348**	**3,011**
Credit loss allowance	(17)	(6)	(148)	(171)
Carrying amount	**1,997**	**643**	**199**	**2,840**

12 Loans and Advances to Customers (Continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2019:

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	592	-	-	592
- Good	123,084	-	-	123,084
- Satisfactory	-	3,252	-	3,252
- Special monitoring	-	584	-	584
- Default	-	-	10,063	10,063
Gross carrying amount	**123,676**	**3,835**	**10,063**	**137,574**
Credit loss allowance	(229)	(23)	(1,099)	(1,351)
Carrying amount	**123,447**	**3,812**	**8,964**	**136,223**
Consumer loans				
- Excellent	1,669	-	-	1,669
- Good	52,840	-	-	52,840
- Satisfactory	-	2,578	-	2,578
- Special monitoring	-	693	-	693
- Default	-	-	3,760	3,760
Gross carrying amount	**54,509**	**3,271**	**3,760**	**61,540**
Credit loss allowance	(346)	(24)	(998)	(1,368)
Carrying amount	**54,163**	**3,247**	**2,762**	**60,172**
Credit cards				
- Excellent	-	-	-	-
- Good	-	-	-	-
- Satisfactory	-	4,032	-	4,032
- Special monitoring	-	-	-	-
- Default	-	-	331	331
Gross carrying amount	**-**	**4,032**	**331**	**4,363**
Credit loss allowance	-	(38)	(213)	(251)
Carrying amount	**-**	**3,994**	**118**	**4,112**

For description of the credit risk grading used in the tables above refer to Note 0.

12 Loans and Advances to Customers (Continued)

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

	December 31, 2020		December 31, 2020	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	215,980	20%	203,478	20%
Tourism & Restaurants	148,918	13%	137,832	14%
Real Estate Management	135,796	12%	96,878	10%
Financial Institutions	94,842	9%	99,384	10%
Trade	87,094	8%	76,766	8%
Construction & Production of Construction materials	72,792	7%	72,302	7%
Health Care	65,364	6%	59,577	6%
Service	53,731	5%	70,428	7%
Wine production	53,657	5%	47,826	5%
Energy	51,027	4%	25,813	2%
Agricultural	45,513	4%	37,370	4%
Real Estate Development	39,610	4%	25,770	3%
Production & Manufacturing	35,330	3%	29,183	2%
Telecommunication	43	0%	53	0%
Other	1,621	0%	17,769	2%
Total loans and advances to customers carried at AC	**1,101,318**	**100%**	**1,000,429**	**100%**

At 31 December 2020 the Group had 12 borrowers' groups (2019: 11 borrowers) with aggregated loan amounts above 5% of the Bank's regulatory capital. The total aggregate amount of these loans was GEL 260,204 thousand (2019: GEL 219,274 thousand) or 24% of the gross loan portfolio (2019: 22%).

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. The table below summarises carrying value of loans to customers analysed by type of collateral obtained by the Group as at 31 December 2020:

In thousands of Georgian Lari	**Loans to legal entities**	**Mortgage loans**	**Consumer loans**	**Credit cards**	**Total**
Loans collateralised by:					
- real estate	641,517	151,732	30,749	-	823,998
- cash deposits	72,135	661	3,004	-	75,800
- Transport and equipment	22,692	-	343	-	23,035
- other assets	30,485	6	4	20	30,515
Total	**766,829**	**152,399**	**34,100**	**20**	**953,348**
Unsecured exposures	118,509	1,121	25,349	2,991	147,970
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**885,338**	**153,520**	**59,449**	**3,011**	**1,101,318**

12 Loans and Advances to Customers (Continued)

Information about collateral for loans to customers is as follows at 31 December 2019:

In thousands of Georgian Lari	Loans to legal entities	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:					
- real estate	569,328	136,278	27,548	7	733,161
- cash deposits	97,133	35	1,550	-	98,718
- Transport and equipment	17,061	22	337	-	17,420
- other assets	32,527	128	-	20	32,675
Total	**716,049**	**136,463**	**29,435**	**27**	**881,974**
Unsecured exposures	80,902	1,112	32,105	4,336	118,455
Total carrying value loans and advances to customers at AC (amount representing exposure to credit risk for each class of loans at AC)	**796,951**	**137,575**	**61,540**	**4,363**	**1,000,429**

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 1,213 thousand (2019: GEL 9,877 thousand) were not considered in the above table.

The disclosure above represents the lower of the carrying value of the loan or fair value collateral taken; the remaining part is disclosed within the unsecured exposures.

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 2020 is as follows.

	Under-collateralised Loans		**Over-collateralised Loans**	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	16,765	828	49,520	201,177
Loans to individuals carried at AC				
Mortgage loans	891	-	3,358	19,310
Consumer loans	57	24	12,016	31,986
Credit cards	347	-	-	-

12 Loans and Advances to Customers (Continued)

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised Loans		Under-collateralised Loans	
In thousands of Georgian Lari	Carrying value of the loans	Value of collateral	Carrying value of the loans	Value of collateral
Credit impaired assets:				
Loans to legal entities carried at AC	2,547	1,110	36,867	145,904
Loans to individuals carried at AC				
Mortgage loans	79	22	9,985	22,614
Consumer loans	1,146	-	2,614	15,274
Credit cards	325	-	7	11

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.

In order to assess the impact of old valuations on the assessment of ECL the Group has performed re-evaluation of the representative sample of collaterals with old valuations (older than one year) in 2020. Based on the results for the representative sample the possible impact of old valuations on ECL assessment was found insignificant for 2020, as market prices didn’t show significant change over time. 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.

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 2020 and 31 December 2019:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Loans to Legal entities	46	59
Loans to individuals		
Mortgage loans	-	92
Consumer loans	949	1,055
Credit cards	564	218
Total	**1,559**	**1,424**

The Group’s policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

Refer to Note 42 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 0. Information on related party balances is disclosed in Note 44.

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2020 is presented as follows:

Loans to legal entities As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	**697,805**	**(2,847)**	**694,958**	**0.40%**
Overdue:				
up to 30 days	2,170	(29)	2,141	1.30%
31 to 60 days	579	(18)	561	3.10%
61 to 90 days	713	(33)	680	4.60%
91 to 180 days	2,888	(820)	2,068	28.40%
over 180 days	6,801	(786)	6,015	11.60%
Total collectively assessed loans	**710,956**	**(4,533)**	**706,423**	**0.60%**
Individually assessed				
Not past due	139,464	(3,454)	136,010	2.50%
Overdue:				
up to 30 days	-	-	-	-
31 to 60 days	450	(237)	213	52.70%
61 to 90 days	-	-	-	-
91 to 180 days	19,628	(6,308)	13,320	32.10%
over 180 days	14,840	(6,893)	7,947	46.40%
Total individually assessed loans	**174,382**	**(16,892)**	**157,490**	9.70%
Total legal entity lending	**885,338**	**(21,425)**	**863,913**	**2.40%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to standard lending as at December 31, 2019 is presented as follows:

Loans to legal entities As at December 31, 2019	**Gross loans**	**Provision for expected credit losses**	**Net loans**	**Provision for expected credit losses to gross loans**
Collectively assessed				
Not past due	760,037	(2,498)	757,539	0.3%
Overdue:				
up to 30 days	3,442	(82)	3,360	2.4%
31 to 60 days	1,331	(56)	1,275	4.2%
61 to 90 days	242	(13)	229	5.4%
91 to 180 days	431	(30)	401	7.0%
over 180 days	5,997	(937)	5,060	15.6%
Total collectively assessed loans	**771,480**	**(3,616)**	**767,864**	**0.5%**
Individually assessed				
Not past due	5,086	(1,822)	3,264	35.8%
Overdue:				
up to 30 days	1,474	(537)	937	36.4%
31 to 60 days	8,496	(3,094)	5,402	36.4%
61 to 90 days	2,173	(791)	1,382	36.4%
91 to 180 days	1,320	(481)	839	36.4%
over 180 days	6,922	(2,125)	4,799	30.7%
Total individually assessed loans	25,471	(8,850)	16,623	34.7%
Total legal entity lending	**796,951**	**(12,465)**	**784,486**	**1.6%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to mortgage loans as at December 31, 2020 is presented as follows:

Mortgage loans As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	145,221	(1,165)	144,056	0.8%
Overdue:				
up to 30 days	2,286	(5)	2,281	0.2%
31 to 60 days	664	(182)	482	27.4%
61 to 90 days	573	(147)	426	25.7%
91 to 180 days	806	(228)	578	28.2%
over 180 days	3,968	(1,228)	2,740	30.9%
Total collectively assessed loans	**153,520**	**(2,957)**	**150,565**	**1.9%**
Total mortgage loans	**153,520**	**(2,957)**	**150,565**	**1.9%**

Analysis by credit quality of loans to mortgage loans as at December 31, 2019 is presented as follows:

Mortgage loans As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	131,068	(758)	130,310	0.6%
Overdue:				
up to 30 days	2,182	(148)	2,034	6.8%
31 to 60 days	461	(17)	444	3.7%
61 to 90 days	398	(32)	366	8.0%
91 to 180 days	1,244	(116)	1,128	9.3%
over 180 days	2,220	(280)	1,940	12.6%
Total collectively assessed loans	**137,573**	**(1,351)**	**136,222**	**1.0%**
Total mortgage loans	**137,573**	**(1,351)**	**136,222**	**1.0%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to consumer loans as at December 31, 2020 is presented as follows:

Consumer loans As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	55,669	(735)	54,934	1.3%
Overdue:				
up to 30 days	1,356	(57)	1,299	4.2%
31 to 60 days	454	(152)	302	33.5%
61 to 90 days	567	(140)	427	24.7%
91 to 180 days	577	(306)	271	53.0%
over 180 days	826	(124)	702	15.0%
Total collectively assessed loans	**59,449**	**(1,514)**	**57,935**	**2.5%**
Total consumer loans	**59,449**	**(1,514)**	**57,935**	**2.5%**

Analysis by credit quality of loans to consumer loans as at December 31, 2019 is presented as follows:

Consumer loans As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	57,038	(674)	56,364	1.2%
Overdue:				
up to 30 days	1,824	(91)	1,733	5.0%
31 to 60 days	496	(43)	453	8.7%
61 to 90 days	330	(48)	282	14.5%
91 to 180 days	755	(235)	520	31.1%
over 180 days	1,097	(277)	820	25.3%
Total collectively assessed loans	**61,540**	**(1,368)**	**60,172**	**2.2%**
Total consumer loans	**61,540**	**(1,368)**	**60,172**	**2.2%**

12 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to credit cards as at December 31, 2020 is presented as follows:

Credit cards As at December 31, 2020	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	2,875	(115)	2,760	3.90%
Overdue:				
up to 30 days	15	(6)	9	40.00%
31 to 60 days	64	(27)	37	42.20%
61 to 90 days	12	(5)	7	41.70%
91 to 180 days	44	(18)	26	40.90%
over 180 days	1	-	1	0.00%
Total collectively assessed loans	**3,011**	**(171)**	**2,840**	**5.60%**
Total credit cards	**3,011**	**(171)**	**2,840**	**5.70%**

Analysis by credit quality of loans to credit cards as at December 31, 2019 is presented as follows:

Credit cards As at December 31, 2019	Gross loans	Provision for expected credit losses	Net loans	Provision for expected credit losses to gross loans
Collectively assessed				
Not past due	4,092	(78)	4,014	1.9%
Overdue:				
up to 30 days	92	(59)	33	64.1%
31 to 60 days	-	-	-	0.0%
61 to 90 days	42	(27)	15	64.3%
91 to 180 days	77	(49)	28	63.6%
over 180 days	60	(38)	22	63.3%
Total collectively assessed loans	**4,363**	**(251)**	**4,112**	**5.8%**
Total credit cards	**4,363**	**(251)**	**4,112**	**5.8%**

Modified financial assets. As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition. Financial assets (with loss allowance based on lifetime ECL) modified during the period:

	December 31, 2020
Gross carrying amount before modification	**350,813**
Net amortised cost before modification	340,924
Net modification loss	(1,914)
Net amortised cost after modification	339,010

At 31 December 2020 loans modified since initial recognition at a time when loss allowance was based on lifetime ECL comprised 19,326 GEL, and gross carrying amount of loans for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification comprised 5,114 GEL. At 31 December 2019 loans modified since initial recognition was insignificant.

13 Finance Lease Receivables

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Other financial assets at AC		
Financial leases	5,219	3,138
Less credit loss allowance	(111)	(12)
Total other financial assets	**5,108**	**3,126**

The table below contains an analysis of the credit risk exposure of financial leases at AC. The carrying amount of other financial assets at AC at 31 December 2020 below also represents the Group's maximum exposure to credit risk on these assets:

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**
Finance lease receivables				
- Excellent	-	-	-	-
- Good	2,382	-	-	2,382
- Special monitoring	-	2,515	-	2,515
- Default	-	-	322	322
Gross carrying amount	2,382	2,515	322	5,219
Credit loss allowance	(4)	(19)	(88)	(111)
Carrying amount	**2,378**	**2,496**	**234**	**5,108**

The table below contains an analysis of the credit risk exposure of financial leases at AC. The carrying amount of other financial assets at AC at 31 December 2019 below also represents the Group's maximum exposure to credit risk on these assets:

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**
Finance lease receivables				
- Excellent	2,837	-	-	2,837
- Good	28	-	-	28
- Satisfactory	-	41	-	41
- Special monitoring	-	232	-	232
Gross carrying amount	**2,865**	**273**	**-**	**3,138**
Credit loss allowance	(10)	(2)	-	(12)
Carrying amount	**2,855**	**271**	**-**	**3,126**

13 Finance Lease Receivable (Continued)

Movements in the credit loss allowance and in the gross amortised cost amount of finance lease receivables were as follows.

	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**
Finance lease								
At 31 December 2019	**(10)**	**(2)**	**-**	**(12)**	**2,865**	**273**	**-**	**3,138**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	19	(19)	-	-	(2,434)	2,434	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	88	-	(88)	-	(322)	-	322	-
New originated or purchased	(107)	-	-	(107)	3,551	-	-	3,551
Payments	6	2	-	8	(1,278)	(192)	-	(1,470)
Total movements with impact on credit loss allowance charge for the period	6	(17)	(88)	(99)	(483)	2,242	322	2,081
At 31 December 2020	**(4)**	**(19)**	**(88)**	**(111)**	**2,382**	**2,515**	**322**	**5,219**

13 Finance Lease Receivable (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**
Finance lease								
At 31 December 2018	**-**	**-**	**-**	**-**	**89**	**-**	**-**	**89**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	2	(2)	-	-	(273)	273	-	-
New originated or purchased	(12)	-	-	(12)	3,138	-	-	3,138
Payment	-	-	-	-	(89)	-	-	(89)
Total movements with impact on credit loss allowance charge for the period	**(10)**	**(2)**	**-**	**(12)**	**2,776**	**273**	**-**	**3,049**
At 31 December 2019	**(10)**	**(2)**	**-**	**(12)**	**2,865**	**273**	**-**	**3,138**

Refer to Note 0 for the ECL measurement approach.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

	December 31, 2020	**December 31, 2019**
Present value of lease payments receivable	5,219	3,138
Impairment loss allowance	(111)	(12)
Net investment in the lease	**5,108**	**3,126**
Undiscounted lease payments analysed as:		
Recoverable after 12 months	3,254	2,811
Recoverable within 12 months	1,965	327

Finance lease receivables relate to leases of car and equipment. Estimated collateral held is as at 31 December 2020 amount to GEL 10,543 thousand (2019: GEL 3,653 thousand). Estimates of collateral value are based on the value of collateral assessed at the time of lease origination, and generally are not updated. Risks related to the leased asset such as damage caused by various reasons and theft in majority cases are insured.

The Group's finance lease arrangements do not include variable payments. The average effective interest rate contracted approximates 24.7 % (2019: 24.3 %) per annum.

The Management of the Group estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, together with the value of collateral held over these finance lease receivables. The Management of the Group considers that no finance lease receivable is impaired.
There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

14 Insurance assets

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Insurance receivables	2,848	3,757
Reinsurance assets	2,998	5,041
Total insurance contracts	**5,846**	**8,798**

Insurance assets comprised of the following:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Unearned Reinsurance Premium	2,523	3,351
Reinsurers' share of provisions	281	518
Reinsurance receivable net	194	1,172
Premiums receivable net	2,848	3,757
Total insurance assets	**5,846**	**8,798**

15 Investment Properties

In thousands of Georgian Lari	**2020**	**2019**
Investment properties at 1 January	**959**	**1,572**
Depreciation	(9)	(7)
Disposals	(367)	(727)
Transfer from other assets	-	121
Investment properties at 31 December	**583**	**959**

As at 2020 GEL nil thousand of investment property were attributable to the Bank (2019: GEL 367 thousand).

15 Investment Properties (Continued)

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

In thousands of Georgian Lari	**2020**	**2019**
Investment properties at 1 January	**367**	**1,037**
Disposals	(367)	(670)
Investment properties at 31 December	**-**	**367**

As of 31 December 2020, the fair value of investment properties was GEL 1,157 thousand (2019: GEL 2,011 thousand). As of 31 December 2020 the fair value of investment properties attributable to the bank was GEL nil thousand (2019: GEL 854 thousand)

The fair value of the Group's investment properties are determined by an independent valuator on their recognition mandatorily for properties with value more than GEL 1 million and revalued in every 3 year, internal valuator is performing the valuations on yearly basis to ascertain that the changes in market prices do not significantly affect the fair value of properties. 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 33 and 0 for the disclosure of the income and expenses incurred from investment property.

16 Other Financial Assets

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Other financial assets at AC		
Receivables for credit card services and money transfers	726	453
Receivables related to guarantee fees	344	159
Restricted Cash	164	143
Other receivables	123	800
Subtotal	**1,357**	**1,555**
Less credit loss allowance	(23)	(351)
Total other financial assets	**1,334**	**1,204**

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 its own activities.

The table below contains an analysis of the credit risk exposure of other financial assets at AC.

16 Other Financial Assets (Continued)

The carrying amount of other financial assets at AC at 31 December 2020 below also represents the Group's maximum exposure to credit risk on these assets:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
- Excellent	211	-	-	211
- Good	957	161	-	1,118
- Default	-	-	28	28
Gross carrying amount	**1,168**	**161**	**28**	**1,357**
Credit loss allowance	(9)	(2)	(12)	(23)
Carrying amount	**1,159**	**159**	**16**	**1,334**

The table below contains an analysis of the credit risk exposure of other financial assets at AC. The carrying amount of other financial assets at AC at 31 December 2019:

In thousands of Georgian Lari	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
- Excellent	245	-	-	245
- Good	583	34	-	617
- Default	-	-	693	693
Gross carrying amount	**828**	**34**	**693**	**1,555**
Credit loss allowance	(2)	(34)	(315)	(351)
Carrying amount	**826**	**-**	**378**	**1,204**

The following tables explain 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 current and comparative annual periods:

	2020			**2019**		
in thousands of Georgian Lari	**Gross carrying amount**	**Credit loss allowance**	**Total**	**Gross carrying amount**	**Credit loss allowance**	**Total**
Balance at 1 January	**1,555**	**(351)**	**1,204**	**913**	**(130)**	**783**
New originated or purchased	613	(9)	604	887	(204)	683
Financial assets derecognised during the period (repaid or written off)	(882)	338	(544)	(268)	2	(266)
Total credit loss allowance charge in profit or loss for the period	1,286	(22)	1,264	1,532	(332)	(1200)
Foreign exchange gains and losses	70	(1)	69	23	(19)	3

in thousands of Georgian Lari	2020 Gross carrying amount	2020 Credit loss allowance	2020 Total	2019 Gross carrying amount	2019 Credit loss allowance	2019 Total
Balance at 31 December	**1,357**	**(23)**	**1,334**	**1,555**	**(351)**	**1,204**

or the purpose of ECL measurement other financial assets balances are included in Stage 1, Stage 2 and Stage 3 according to their risk profile. Refer to Note 0 for the ECL measurement approach.

Refer to Note 42 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 44.

17 Other Assets

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Repossessed collateral	34,482	27,794
Input and withholding taxes	1,166	526
Prepayments for services	1,029	457
Litigation prepayments	568	686
Other	1,424	1,152
Total other assets	**38,669**	**30,615**

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 future. The Bank initiates special offers and marketing actions to sell collateral, including brokers' services and advertising on locations (such as lands, offices, etc.)

As of 31 December 2020 the value of repossessed collateral attributable to the bank was GEL 32,719 thousand (2019: GEL 25,895). Information on related party balances is disclosed in Note 44.

18 Premises, Equipment and Intangible Assets

In thousands of Georgian Lari	Note	Premises	Office and computer equipment	Total premises and equipment	Computer software licences	Total
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**
Additions		330	2,194	2,524	1,229	3,753
Disposals		-	-	-	(92)	(92)
Depreciation						
Depreciation charge	0	(429)	(1,536)	(1,965)	(412)	(2,377)
Disposals		-	-	-	92	92
Carrying amount at 31 December 2019		**21,247**	**5,769**	**27,016**	**2,199**	**29,215**
Cost or valuation at 31 December 2019		21,680	15,673	37,353	3,451	40,805
Accumulated depreciation		(433)	(9,904)	(10,337)	(1,253)	(11,590)
Carrying amount at 31 December 2019		**21,247**	**5,769**	**27,016**	**2,199**	**29,215**
Additions		-	989	989	2,251	3,240
Transfers		820	-	820	-	820
Disposals		-	(915)	(915)	(228)	(1,143)
Revaluation		838	-	838	-	838
Depreciation						
Depreciation charge	0	(456)	(1,651)	(2,107)	(478)	(2,585)
Disposals		-	869	869	165	1,034
Carrying amount at 31 December 2020		**22,449**	**5,061**	**27,510**	**3,909**	**31,419**
Cost or valuation at 31 December 2020		23,338	15,747	39,085	5,475	44,560
Accumulated depreciation		-889	-10,686	-11,575	-1,566	-13,141
Carrying amount at 31 December 2020		**22,449**	**5,061**	**27,510**	**3,909**	**31,419**

Premises have been revalued at fair value in December 2018 by an independent firm of valuers. As at the reporting date the Group has appraised its premises and impact of changes in market prices on valuation of properties. The analysis revealed that changes in prices have no significant impact on valuation, therefore the Group did not perform revaluation of its premises at 31 December 2020.

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 2020, the carrying amount of premises would have been GEL 12,620 thousand (2019: GEL 12,925 thousand) had the assets been carried at cost less depreciation.

18 Premises, Equipment and Intangible Assets (Continued)

The amount reconciles to the carrying value of the premises as follows:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Premises at revalued amount in the statement of financial position	22,448	21,247
Revaluation reserve presented in equity, net of tax	10,003	9,165
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	(1,821)	(843)
Premises at cost less accumulated depreciation	**14,266**	**12, 925**

As at December 31, 2020 and 2019 included in property and equipment were fully depreciated assets amounting GEL 7,441 thousand and GEL 8,490 thousand, respectively.

19 Right of Use Assets and Lease Liabilities

The Group leases various offices. Rental contracts are typically made for fixed periods from 1 to 10 years, but may have extension options as described below.

Until 31 December 2018 leases of premises and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

The right of use assets by class of underlying items is analysed as follows:

In thousands of Georgian Lari	Premises
Carrying amount at 1 January 2019	**2,541**
Additions	2,072
Disposals	(79)
Depreciation charge	(998)
Carrying amount at 31 December 2019	**3,536**
Carrying amount at 1 January 2020	
Additions	1,707
Disposals	(25)
Depreciation charge	(1,065)
Carrying amount at 31 December 2020	**4,153**

Interest expense on lease liabilities was GEL 248 thousand (2019: GEL 218 thousand).

Expenses relating to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

In thousands of Georgian Lari	2020	2019
Expense relating to leases of low-value assets that are not shown above as short-term leases	155	296

19 Right of Use Assets and Lease Liabilities (Continued)

Total cash outflow for leases in 2020 was GEL 1,461 thousand (2019: GEL 1,168 thousand).

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

20 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	**December 31, 2020**	**December 31, 2019**
Non-current assets held for sale at 1 January:	**486**	**4,360**
Disposals	(135)	(1,688)
Transfer to other assets	(292)	(2,462)
Transfer from other assets	1,614	276
Total Non-current assets held for sale (or disposal groups)	**1,673**	**486**

As of December 31, 2020 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 1,672 thousand are contracted by the end of 2021. Assets are classified as Non-current assets held for sale category upon signing of sales contracts.

The Non-current assets held for sale attributable to the bank amounts GEL 1,614 thousand as at 31 December 2020 (2019: GEL 291 thousand).

21 Due to Other Banks

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Correspondent accounts and overnight placements of other banks	1	1
Short-term placements of other banks	40,233	40,838
Short-term placements from NBG	263,929	143,145
Total due to other banks	**304,163**	**183,984**

The Group pledged debt securities as collateral with carrying amount of GEL 215,203 thousand, mortgage loans with carrying amount of GEL 64,390 thousand and SME loans with carrying amount of GEL 19,017 thousand for short term loan with NBG at the end of reporting period (2019: debt securities GEL 99,855 thousand, mortgage loans GEL 60,492 thousand and SME loans nil pledged for short-term loans with NBG). Refer to Note 40.

Refer to Note 42 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 0. Information on related party balances is disclosed in Note 44.

22 Customer Accounts

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
State and public organisations		
- Current/settlement accounts	135,576	82,519
- Term deposits	96,406	44,381
Other legal entities		
- Current/settlement accounts	213,718	154,936
- Term deposits	137,249	155,118
Individuals		
- Current/demand accounts	139,447	130,079
- Term deposits	216,319	201,837
Total customer accounts	**938,715**	**768,870**

State and public organisations exclude government owned profit orientated businesses.

The customer accounts balances under the bank's separate statement as at 31 December 2020 amount to GEL 940,377 thousand (2019: GEL 770,050 thousand)

Economic sector concentrations within customer accounts are as follows:

	2020		**2019**	
In thousands of Georgian Lari	**Amount**	**%**	**Amount**	**%**
Individuals	355,765	38%	331,916	43%
Financial Institutions	184,037	20%	97,004	13%
State controlled enterprises	90,018	10%	46,973	6%
Service	57,909	6%	46,939	6%
Transportation or Communication	49,723	5%	54,944	7%
Trade	40,737	4%	41,627	5%
Production/Manufacturing	40,698	4%	39,583	5%
Education	36,561	4%	27,181	4%
Construction & Production of Construction Materials	35,590	4%	50,284	7%
Real Estate Development	26,842	3%	17,705	2%
Energy	2,129	0%	2,319	0%
Other	18,706	2%	12,395	2%
Total customer accounts	**938,715**	**100%**	**768,870**	**100%**

At 31 December 2020, the Group had three customers (2019: two customers) with balances above 10% of total equity. The aggregate balance of these customers was GEL 178,834 thousand (2019: GEL 82,415 thousand) or 19.1% (2019: 10.7%) of total customer accounts.

Refer to Note 42 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 0. Information on related party balances is disclosed in Note 44.

23 Other Borrowed Funds

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Other borrowed funds		
Loans from European Bank for Reconstruction and Development (“EBRD”)	95,382	82,575
Loans from Black Sea Trade and Development Bank (“BSTDB”)	81,362	56,429
Loans from GLOBAL CLIMATE PARTNERSHIP FUND	50,179	41,017
Loans from The OPEC Fund for International Development (OFID)	49,648	43,770
Loans from THE EUROPEAN FUND FOR SOUTHEAST EUROPE	49,327	32,409
Loans from Blue Orchard	33,848	60,257
Loans from International Finance Corporation (“IFC”)	32,817	28,717
Loans from GREEN FOR GROWTH FUND	24,190	26,588
Loans from BANCA POPOLARE DI SONDRIO SCPA	18,715	-
Loans from China Development Bank (“CDB”)	16,405	42,972
Loans from Commerzbank	16,122	7,047
Loans from Asian Development Bank ("ADB")	9,017	-
Loans from EFA FINANCIAL INSTITUTIONS DEBT FUND PTE. LTD (“EFA”)	-	7,145
Total other borrowed funds	**477,012**	**428,926**

The Group is obligated to comply with financial covenants in relation to its borrowings. Information on compliance with covenants is disclosed in Note 40.

Refer to Note 42 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 0. Information on related party balances is disclosed in Note 44.

24 Insurance Liabilities

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Unearned premium and claims provisions	3,646	4,425
Other insurance liabilities	2,473	4,403
Total insurance liabilities	**6,119**	**8,828**

Other insurance liabilities contains amount for provisions incurred but not reported GEL 6 thousand (2019: GEL 4 thousand).

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

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Unearned premium and claims provisions as at 1 January	4,425	2,351
Gross premium during the year	7,428	10,278
Premiums earned during the year	(8,207)	(8,204)
Unearned premium and claims provisions as at 31 December	**3,646**	**4,425**

24 Insurance Liabilities (Continued)

Insurance risk: The Company has exposure to market risk through its insurance and investment activities. The Company manages its insurance risk through the use of reinsurance of risk concentrations, underwriting limits, approval procedures for transactions and monitoring of emerging issues.

Claims management risk: In general, motor claims reporting lags are minor, if any, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimations risk. The Company monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.
The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Company's current experience.

Reinsurance risk: The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. When selecting a reinsurer, the Company considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed mainly from publicly available information.

Reserving risk: There is a risk that reserves are assessed incorrectly and there are not enough funds to pay or handle claims as they fall due. To estimate insurance and reinsurance liabilities, the Company uses actuarial methods and assumptions set by the Insurance State Supervision Service of Georgia.

Credit risk in respect to insurance: The Company is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Management normally fully provides for impaired insurance receivables after they are 365 days overdue.

The movements on claims reserves for the years ended 31 December 2020 and 2019 were as follows:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Reserves for claims, beginning of the year	242	83
Reserves for claims, reinsurance share, beginning of the year	(163)	(10)
Net reserves for claims, beginning of the year	79	73
Plus claims incurred	699	497
Less claims paid	(605)	(491)
Net reserves for claims, end of the year	173	78
Reserves for claims, reinsurance share, end of the year	281	163
Reserves for claims, end of the year	**454**	**241**

24 Insurance Liabilities (Continued)

The movements on unearned insurance premium reserve for the years ended 31 December 2020 and 2019 were as follows:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Gross unearned insurance premium reserve, beginning of the year	4,183	2,351
Unearned insurance premium reserve, reinsurance share, beginning of the year	(3,352)	(1,904)
Net unearned insurance premium reserve, beginning of the year	831	447
Change in unearned insurance premium reserve	(991)	1,833
Change in unearned insurance premium reserve, reinsurance share	829	(1,448)
Net change in unearned insurance premium reserve	(162)	385
Net unearned insurance premium reserve, end of the year	669	831
Unearned insurance premium reserve, reinsurance share, end of the year	2,523	3,352
Gross unearned insurance premium reserve, end of the year	**3,192**	**4,183**

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 42 for disclosure of the fair value of each class of Insurance liabilities.

25 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Georgian Lari	**December 31, 2020**	**December 31, 2019**
Other financial liabilities at AC		
Payables for services	2,384	934
Settlement Operations	1,985	917
Debit and credit card payables	1,277	152
Other accrued liabilities	656	554
Total other financial liabilities	**6,302**	**2,557**

25 Other Financial Liabilities (Continued)

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.

Refer to Note 42 for disclosure of the fair value of each class of other financial liabilities.

26 Other Liabilities

Other liabilities comprise the following:

In thousands of Georgian Lari	December 31, 2020	December 31, 2019
Accrued employee benefit costs	625	2,083
Prepayments received	966	472
Taxes payable other than on income	279	74
Other	826	468
Total other liabilities	**2,696**	**3,097**

Accrued employee benefits include the provisions created for staff and management benefits, including provisions created under share based payment ("SBP") arrangements. In 2020 all payments and accruals under SBP were halted temporarily due to the restrictions imposed by the regulator. Refer to Note 29.

27 Subordinated Debt

Subordinated debt of GEL 16,368 thousand (2019: GEL 14,410 thousand) carries a fixed interest rate of 7% p.a. and matures on 2026. The debt ranks after all other creditors in the case of liquidation.

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 0. Information on related party balances is disclosed in Note 44.

28 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 2019	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2019	**16,057**	**16,057**	**74,923**	**90,980**
At 31 December 2020	**16,057**	**16,057**	**74,923**	**90,980**

The total authorised number of ordinary shares is 16,181 thousand shares (2019: 16,181 thousand shares), with a par value of GEL 1 per share (2019: GEL 1 per share). The number of ordinary issued shares is 16,181 thousand (2019: 16,181 thousand shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

The table above does not include 124 thousand (2019: 124 thousand) of granted and issued shares to management which are not yet vested. Each ordinary share carries one voting right.

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.

The Banks undistributed reserves under Georgian Accounting Rules as at 31 December 2020 amount to GEL 138,460 thousand (2019: GEL 113,627 thousand).

29 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 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. 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 2020 amounted to GEL 20 thousand (2019: GEL 483 thousand) recognizing liabilities on SBP scheme due for 2017-2019 years. In 2020 due to the constrains imposed by the regulator for accruals to the provisions were temporarily halted and not provided in year 2020 charges. Refer to Note 39.

Tabular information on the scheme is given below:

In thousands of Georgian Lari except for number of shares	2020	2019
Number of unvested shares at the beginning of the year	**220,000**	**218,000**
Number of granted shares	-	-
Change in estimate of number of shares expected to vest based on performance conditions	(42,000)	2,000
Number of unvested shares at the end of the year	**178,000**	**220,000**
Value at grant date per share (in GEL)	12.55	12.55
Expense on equity-settled part	20	483
Expense recognized as staff cost during the year	**20**	**483**

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 1,842 as at 31 December 2020 (GEL 1,822 as at 31 December 2019).

30 Other Comprehensive Income Recognised in Each Component of Equity

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

In thousands of Georgian Lari	Note	Revaluation reserve for premises	Total
Year ended 31 December 2020			
Revaluation of debt securities at FVOCI	10	173	173
Revaluation of premises		838	838
Total other comprehensive income		**1,011**	**1,011**

31 Interest Income and Expense

In thousands of Georgian Lari	**2020**	**2019**
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	102,177	97,080
Debt securities at AC	16,953	14,410
Due from other banks at AC	3,087	3,978
Debt securities at FVOCI	864	-
Total interest income calculated using the effective interest method	**123,081**	**115,468**
Interest expense on financial liabilities at AC calculated using the effective interest method		
Other borrowed funds	26,712	25,006
Term deposits of individuals	12,492	10,527
Due to other Banks	9,363	3,274
Term deposits of legal entities	9,275	9,290
Current/settlement accounts	6,979	6,192
Subordinated loans	1,086	368
Term placements of other banks	866	1,374
Total interest expense calculated using the effective interest method	**66,773**	**56,031**
Losses from modification of financial assets	**1,914**	**-**
Net interest income	**54,394**	**59,437**

32 Fee and Commission Income and Expense

In thousands of Georgian Lari	2020	2019
Fee and commission income		
Fee and commission income not relating to financial instruments at FVTPL:		
- Financial guarantees issued (Note 40)	2,532	2,320
- Plastic card fees	1,915	2,556
- Settlement transactions	1,476	1,629
- Cash transactions	365	535
- Performance guarantees issued (Note 40)	247	833
- Distant banking fees	123	294
- Other	527	232
Total fee and commission income	**7,185**	**8,399**
Fee and commission expense		
Fee and commission expense not relating to financial instruments at FVTPL		
- Plastic card fees	2,205	2,415
- Settlement transactions	589	612
- Cash Collection & Transaction fees	128	135
- Expenses Related to Guarantees	97	79
- Factoring services	6	92
- Other	140	35
Total fee and commission expense	**3,165**	**3,368**
Net fee and commission income	**4,020**	**5,031**

33 Other Operating Income

In thousands of Georgian Lari	2020	2019
Gains on disposal of repossessed property and assets held for sale	289	789
Revenues From Fines	836	117
Operating lease income	777	534
Gains on disposal of securities	-	314
Reversal of impairment of repossessed property	315	95
Other	(250)	89
Total other operating income	**1,967**	**1,938**

34 Administrative and Other Operating Expenses

In thousands of Georgian Lari	Note	2020	2019
Employee compensation		17,991	19,703
Depreciation of premises and equipment	18	2,585	2,377
Professional services		1,869	2,123
Communications and information services		1,489	1,121
Advertising and marketing		1,346	1,374
Depreciation of right of use assets	19	1,065	998
Repairs and maintenance		961	639
Security services		808	684
Taxes other than on income		696	412
Insurance		423	608
Low-value assets lease expense		248	224
Office supplies		175	339
Operating lease expense		155	296
Impairment of litigation prepayments and other financial assets		66	193
Travel and Training		48	170
Other		1,272	1,181
Total administrative and other operating expenses		**31,197**	**32,442**

Included in staff costs are statutory pension contributions of GEL 268 thousand (2019: 266 thousand).

The average number of employees of the Group during 2020 is 470 (2019: 484). The table below discloses the information on the Management Board members including Supervisory Board and employees for respective periods:

	2020		2019	
	Bank separate	Consolidated	Bank separate	Consolidated
Supervisory Board members	5	5	5	5
Management Board members	7	11	7	12
Middle management staff	30	36	25	31
Other employees	391	418	472	493
Temporary employed	-	-	1	1
Average number of employees	**433**	**470**	**510**	**542**

Included in staff costs is the amount of GEL 20 thousand (2019: GEL 483 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 55 thousand in 2020 (2019: GEL 31 thousand) and consisted of costs of utilities, staff costs and expenses related to property tax and security.

As at 31 December 2020 the professional service fees include GEL 400 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 (2019: GEL 399 thousand). The fees related to the Bank as at 31 December 2020 amount GEL 259 thousand, (2019: GEL 345 thousand).

35 Income Taxes

(a) Components of income tax expense

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

In thousands of Georgian Lari	2020	2019
Current tax	(245)	(2,400)
Deferred tax	(1,221)	(204)
Income tax expense for the year	**(1,466)**	**(2,604)**

(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 2020 income is 15% (2019: 15%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2019: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Georgian Lari	2020	2019
Profit before tax	**25,687**	**39,931**
Theoretical tax charge at statutory rate (2020: 15%; 2019: 15%)	(3,853)	(5,990)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income from Government /NBG's securities and deposits	2,612	2,401
- Other income which is exempt from taxation	148	118
- Income items not recognized in P&L, but taxable from taxation viewpoint	(71)	(2)
- Other non-deductible expenses	(25)	(1)
Tax loss not carried forward	(1,106)	-
Effect of change in tax legislation	829	870
Income tax expense for the year	**(1,466)**	**(2,604)**

At 31 December 2020 the Group has recorded a deferred tax liability in respect of temporary differences of GEL 7 thousand (2019: GEL 7 thousand) 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.

0 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 2020**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(1,138)	531	-	(607)
Credit loss allowance of loans	(1,303)	(1,758)	-	(3,061)
Right of use assets	131	9	-	140
Guarantees provision	(227)	109	-	(118)
Interbank provision	47	40	-	87
Reversal of securities provision	42	(18)	-	24
Borrowings	(407)	99	-	(308)
Accruals	330	(188)	-	142
Other	581	(47)	-	534
Share Based Payment	89	3	-	92
Net deferred tax liability	**(1,855)**	**(1,220)**	**-**	**(3,075)**

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 2019**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) directly to equity**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(387)	(770)	20	(1,137)
Credit loss allowance of loans	(1,856)	554	-	(1,302)
Right of use assets	-	131	-	131
Guarantees provision	(125)	(102)	-	(227)
Interbank provision	16	30	-	46
Reversal of securities provision	49	(7)	-	42
Borrowings	(284)	(122)	-	(406)
Accruals	250	79	-	329
Other	595	(14)	-	581
Share Based Payment	71	18	-	89
Net deferred tax liability	**(1,671)**	**(203)**	**20**	**(1,855)**

36 Dividends

	2020	2019
In thousands of Georgian Lari	Ordinary	Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	-	3,729
Dividends paid during the year	-	(3,729)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (Lari)	**-**	**0.23**

All dividends are declared and paid in Georgian Currency.

37 Reconciliation of Liabilities Arising from Financing Activities

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 or Georgian Lari	Other borrowed funds	Subordinated debt	Lease liabilities	Total
Liabilities from financing activities at 1 January 2019	**345,782**	**-**	**2,541**	**348,323**
Cash flows	35,012	14,383	(1,250)	48,145
Foreign exchange adjustments	25,170	(332)	115	24,141
Other non-cash movements	22,962	358	2,331	26,463
Liabilities from financing activities at 31 December 2019	**428,926**	**14,409**	**3,737**	**447,072**
Cash flows	(40,299)	(1,221)	(1,394)	(42,914)
Foreign exchange adjustments	61,992	2,094	508	65,251
Other non-cash movements	26,393	1,086	1,961	28,783
Liabilities from financing activities at 31 December 2020	**477,012**	**16,368**	**4,812**	**498,192**

38 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 risk management units:

- On the Supervisory Board level - the Board committees: Risk Committee and Audit Committee,
- On the Management Board level – the Management Board level committees and units: 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;

38 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 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. Senior level credit is a supreme decision making body responsible for high value transactions. The Committee is also responsible for issuing guidance and manuals to lower level credit committees. The credit approval limits between committees are segregated as follows:

For retail segment lending

- The senior credit committee reviews and approves limits above GEL 600 thousand;
- The junior credit committees review and approve credit limits between GEL 300-600 thousand;
- Applications up to GEL 300 thousand are approved by risk management department. Exceptions are retail loans up to GEL 100 thousand are approved by retail lending group.

For business segment lending

- The senior credit committee reviews and approves limits above USD 600 thousand;
- The junior credit committees review and approve credit limits between USD 300-600 thousand and meet weekly;
- Applications up to USD 300 thousand are approved by risk management department.

38 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 Financial Reporting and Risk 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 Management Board and the Risk Committee.

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 agencies(Fitch)
Excellent	1 – 2	AAA to BB+	0,01% - 0,3%
Good	3 – 4	BB to B+	0,31% -2,06%
Satisfactory	5 – 6	B, B-	2,07% - 2,95%
Special monitoring	7 – 8	CCC+ to CC-	2.96% - 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.

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 and collateral (deposit or real estate) fully covers the loan
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

38 Financial Risk Management (Continued)

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, adjusted for expected prepayments, if any. 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.

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.

38 Financial Risk Management (Continued)

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 significance 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 six months. This period of six 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.

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 exemption 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.

38 Financial Risk Management (Continued)

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 above predefined absolute and relative thresholds for retail portfolio.

The level of ECL that is recognised in these 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.

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.

38 Financial Risk Management (Continued)

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 afterword 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 Retail portfolio. The impact of this simplification was assessed as immaterial. Currently the Group doesn't consider early partial repayment assumptions in ECL assessment for Retail portfolio (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.

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.

38 Financial Risk Management (Continued)

The Group has applied a floor to final estimated LGD. The rationale for applying the floor is that there are factors, which cannot be modelled 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 0.

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 blue chip corporate bonds 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 GDP Growth for Retail PD Models and Unemployment 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.

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. Under IFRS9, validation and back-testing of all applied parameters and significant assumptions is an inherent part of ECL assessment process. The results of back testing the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

During 2020 the Group has performed back-tests of the assumptions, thresholds and risk parameters used in IFRS9 impairment model, in order to assess the adequacy of forecasts for financial year 2020 as estimated by the IFRS9 impairment models at the end of previous year. Based on the results of the back-tests several modifications have been made in the model, in particular:

- Recovery time used in LGD assessment models – analysed data suggested that in average more than one year passes since the default of the client, until the auction is held and underlying collateral is repossessed, therefore recovery time has been modified in order to anticipate additional time needed to recover the liability form the time point of default. The effect of this modification is increase of provisions of GEL 1,839 thousand.

38 Financial Risk Management (Continued)

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

		USD	**EUR**		**December 31, 2020**
	GEL	USD 1 =3.2766 GEL	EUR 1 =4.0233 GEL	**Other currency**	**Total**
Non-derivative financial assets					
Cash and cash equivalents	214,171	103,505	85,742	1,671	405,089
Mandatory cash balances with the NBG	-	140,591	57,647	-	198,238
Due from other banks	13,424	-	-	-	13,424
Investments in debt securities	261,350	24,283	-	-	285,633
Investments in equity securities	63	-	-	-	63
Loans and advances to customers	486,741	394,663	193,849	-	1,075,253
Finance leases to customers	5,108	-	-	-	5,108
Insurance assets	1,962	3,581	303	-	5,846
Other financial assets	805	507	22	-	1,334
Total non-derivative financial assets	**983,624**	**667,130**	**337,563**	**1,671**	**1,989,988**
Non-derivative financial liabilities					
Due to other banks	263,930	-	40,233	-	304,163
Customer accounts	393,954	426,785	116,440	1,536	938,715
Other borrowed funds	88,244	211,615	177,153	-	477,012
Lease liabilities	306	4,506	-	-	4,812
Insurance liabilities	1,810	4,009	300	-	6,119
Other financial liabilities	3,700	1,689	913	-	6,302
Subordinated debt	-	16,368	-	-	16,368
Total non-derivative financial liabilities	**751,944**	**664,972**	**335,039**	**1,536**	**1,753,491**
OPEN BALANCE SHEET POSITION	**231,680**	**2,158**	**2,524**	**135**	**236,497**
Derivative financial instruments					
Gross settled:					
- foreign exchange forward contracts	1,187	-	(1,187)	-	-
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	1,187	**-**	(1,187)	**-**	-
OPEN POSITION	**232,867**	**2,158**	**1,337**	**135**	**236,497**

38 Financial Risk Management (Continued)

The Group's exposure to foreign currency exchange rate risk at 31 December 2019 is set out below:

	GEL	USD USD 1= 2.8677 GEL	EUR EUR 1= 3.2095 GEL	Other currency	December 31, 2019 Total
Non-derivative financial assets					
Cash and cash equivalents	59,167	150,876	34,835	3,822	248,700
Mandatory cash balances with the NBG	-	155,929	22,060	-	177,989
Due from other banks	7,186	-	-	-	7,186
Investments in debt securities	196,802	5,767	-	-	202,569
Investments in equity securities	63	-	-	-	63
Loans and advances to customers	438,195	380,334	166,465	-	984,994
Finance leases to customers	3,126	-	-	-	3,126
Insurance assets	3,140	5,644	14	-	8,798
Other financial assets	481	709	14	-	1,204
Total non-derivative financial assets	**708,160**	**699,259**	**223,388**	**3,822**	**1,634,629**
Non-derivative financial liabilities					
Due to other banks	171,146	-	12,838	-	183,984
Customer accounts	237,064	449,573	78,479	3,754	768,870
Other borrowed funds	77,496	229,464	121,966	-	428,926
Lease liabilities	385	3,352	-	-	3,737
Other financial liabilities	2,708	6,108	12	-	8,828
Insurance Liabilities	1,878	274	404	1	2,557
Subordinated debt	-	14,410	-	-	14,410
Total non-derivative financial liabilities	**490,677**	**703,181**	**213,699**	**3,755**	**1,411,312**
OPEN BALANCE SHEET POSITION	**217,483**	**(3,922)**	**9,689**	**67**	**223,317**
OPEN POSITION	**217,483**	**(3,922)**	**9,689**	**67**	**223,317**

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 2020 the VaR value amounted GEL 4,287 thousand (2019: GEL 614 thousand).

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 2020	**At 31 December 2019**
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2019: strengthening by 20%)	431	(784)
US Dollar weakening by 20% (2019: weakening by 20%)	(431)	784
Euro strengthening by 20% (2019: strengthening by 20%)	267	1,937
Euro weakening by 20% (2019: weakening by 20%)	(267)	(1,937)

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 daily average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2020	**Average exposure during 2019**
In thousands of Georgian Lari	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 20% (2019: strengthening by 20%)	210	169
US Dollar weakening by 20% (2019: weakening by 20%)	(210)	(169)
Euro strengthening by 20% (2019: strengthening by 20%)	244	(2)
Euro weakening by 20% (2019: weakening by 20%)	(244)	2

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-monetary**	**Total**
31 December 2020						
Total financial assets	651,657	744,819	144,189	380,104	69,219	1,989,988
Total financial liabilities	829,865	369,122	147,508	155,998	250,998	1,753,491
Net interest sensitivity gap at 31 December 2020	**(178,208)**	**375,697**	**(3,319)**	**224,106**	**(181,779)**	**236,497**
31 December 2019						
Total financial assets	252,264	121,069	221,361	777,066	262,869	1,634,629
Total financial liabilities	604,624	151,641	136,003	243,033	276,011	1,411,312
Net interest sensitivity gap at 31 December 2019	**(352,360)**	**(30,572)**	**85,358**	**534,033**	**(13,142)**	**223,317**

At 31 December 2019, significant part interest bearing assets and liabilities are placed in foreign currency, part of loans and advances to customers and borrowings in FX and Local currency are based on floating interest rates. Below is the Group's sensitivity to the interest rate risk on average exposures as the interest rate risk at the end of the reporting period is not representative of the typical exposure of the Group during the year.

For the average exposure during 2020 if interest rates had been 200 basis points lower (2019: 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 3,244 thousand lower (2019: GEL 2,809 thousand lower), mainly as a result of lower interest income on variable interest assets of GEL 5,828 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 2,584 thousand, (2019: mainly as a result of lower interest income on variable interest assets of GEL 4,629 thousand which exceed decrease in interest expense from floating rate borrowings of GEL 1,820 thousand). If interest rates had been 100 basis points lower (2019: 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 3,030 thousand lower (2019: GEL 1,072 thousand lower), due to lower interest income on variable interest assets of GEL 3,514 thousand which exceeds increase income from floating rate borrowings of GEL 484 thousand (2019: due to lower interest income on variable interest assets of GEL 2,070 thousand which exceeds increase income from floating rate borrowings of GEL 998 thousand).

For the average exposure during 2020 if interest rates had been 200 basis points higher (2018: 200 basis points higher), on GEL denominated interest bearing assets and liabilities with all other variables held constant, profit would have been GEL 3,244 thousand higher (2019: GEL 2,809 thousand higher), mainly as a result of higher interest income on variable interest assets by GEL 5,828 thousand which exceed growth of interest expense from floating rate borrowings of GEL 2,584 thousand (2019: mainly as a result of higher interest income on variable interest assets of GEL 4,629 which exceed growth of interest expenses from floating rate borrowings by GEL 1,820 thousand).

38 Financial Risk Management (Continued)

If interest rates had been 100 basis points higher (2019: 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 3,030 thousand higher (2019: GEL 1,072 thousand higher) with higher interest income on variable interest assets of GEL 3,514 thousand and decrease in income from floating rate borrowings by GEL 484 thousand (2019: mainly as a result of with higher interest income on variable interest assets of GEL 2,070 and decrease in income from floating rate borrowings by GEL 998).

The table below discloses interest rate changes impact on the fixed rate debt securities at FVOCI:

	2020
Interest rate increases by 200 bases points	(156)
Interest rate Decreases by 200 bases points	158
Interest rate increases by 100 bases points	(78)
Interest rate Decreases by 100 bases points	79

The Group monitors interest rates for its financial instruments. The table below summarises weighted average interest rates at the respective reporting date based on reports reviewed by key management personnel. For securities, the interest rates represent yields to maturity based on market quotations at the reporting date:

	2020			2019		
In % p.a.	**GEL**	**USD**	**Euro**	**GEL**	**USD**	**Euro**
Assets						
Cash and cash equivalents	0.1%	0.1%	-0.7%	2.0%	1.7%	-
Mandatory cash balances with the NBG	-	-0.3%	-0.7%	-	1.3%	-0.7%
Due from other banks	11.5%	-	-	11.5%	-	-
Investments in debt securities	8%	8.1%	-	7.7%	11.0%	-
Loans and advances to customers	11.8%	7.8%	6.2%	11.6%	8.4%	5.9%
Liabilities						
Due to other banks	8.5%	-	1.6%	9.3%	-	1.0%
Customer accounts	8.6%	2.8%	1.1%	7.6%	3.4%	1.5%
- current and settlement accounts	8.2%	2.0%	0.7%	7.0%	1.9%	1.4%
- term deposits	8.9%	2.8%	1.2%	8.2%	3.6%	1.5%
Other borrowed funds	11.9%	3.9%	2.4%	12.2%	5.5%	3.0%
Lease liabilities	10.0%	6.0%	-	10.0%	6.0%	-
Subordinated debt	-	7.0%	-	-	7.0%	-

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 (2019: 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.

38 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2020 is set out below:

In thousands of Georgian Lari	Georgia	China	OECD	Non-OECD	Total
Non-derivative financial assets					
Cash and cash equivalents	246,522	5	158,419	143	405,089
Mandatory cash balances with the NBG	198,238	-	-	-	198,238
Due from other banks	13,424	-	-	-	13,424
Investments in debt securities	285,633	-	-	-	285,633
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	1,055,163	330	1,683	18,077	1,075,253
Finance leases to customers	5,108	-	-	-	5,108
Insurance assets	5,846	-	-	-	5,846
Other financial assets	982	162	101	89	1,334
Total non-derivative financial assets	**1,810,979**	**497**	**160,203**	**18,309**	**1,989,988**
Non-derivative financial liabilities					
Due to other banks	304,163	-	-	-	304,163
Customer accounts	898,648	22,627	6,885	10,555	938,715
Other borrowed funds	-	16,405	451,590	9,017	477,012
Lease liabilities	4,812				4,812
Insurance liabilities	6,119	-	-	-	6,119
Other financial liabilities	6,275	20	7	-	6,302
Subordinated debt	-	16,368	-	-	16,368
Total non-derivative financial liabilities	**1,220,017**	**55,420**	**458,482**	**19,572**	**1,753,491**
Net position in on-balance sheet non-derivative financial instruments	**590,962**	**(54,923)**	**(298,279)**	**(1,263)**	**236,497**
Credit related commitments and performance guarantees	**134,883**	**232**	**16**	**-**	**135,131**
Gross settled:					
- foreign exchange forward contracts	1,187	-	-	-	1,187
Net position on derivative financial instruments	**1,187**	**-**	**-**	**-**	**1,187**

38 Financial Risk Management (Continued)

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.

The geographical concentration of the Group's financial assets and liabilities at 31 December 2019 is set out below:

In thousands of Georgian Lari	**Georgia**	**China**	**OECD**	**Non-OECD**	**Total**
Non-derivative financial assets					
Cash and cash equivalents	86,630	-	161,941	129	248,700
Mandatory cash balances with the NBG	177,989	-	-	-	177,989
Due from other banks	7,186	-	-	-	7,186
Investments in debt securities	202,569	-	-	-	202,569
Investment in equity securities	63	-	-	-	63
Loans and advances to customers	962,387	376	18	22,213	984,994
Finance leases to customers	3,126				3,126
Insurance assets	8,798	-	-	-	8,798
Other financial assets	795	150	226	33	1,204
Total non-derivative financial assets	**1,449,543**	**526**	**162,185**	**22,375**	**1,634,629**
Non-derivative financial liabilities					
Due to other banks	183,984	-	-	-	183,984
Customer accounts	728,016	21,770	2,094	16,990	768,870
Other borrowed funds	-	42,972	335,040	50,914	428,926
Lease liabilities	3,737				3,737
Insurance liabilities	8,828	-	-	-	8,828
Other financial liabilities	2,537	19	1	-	2,557
Subordinated debt	-	14,410	-	-	14,410
Total non-derivative financial liabilities	**927,102**	**79,171**	**337,135**	**67,904**	**1,411,312**
Net position in on-balance sheet non-derivative financial instruments	**522,441**	**(78,645)**	**(174,950)**	**(45,529)**	**223,317**
Credit related commitments and performance guarantees	**144,745**	**2,929**	**23**	**317**	**148,014**

38 Financial Risk Management (Continued)

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, long-term borrowings and credit lines. 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.

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 liquidity is calculated and assessed on standalone basis. The Bank calculates and maintains liquidity in accordance with the requirement of the NBG on daily basis. These ratios are:

- Average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities and borrowings up to six months and off-balance sheet liabilities limited to minimum 30% on monthly basis
- Liquidity Coverage Ratio (“LCR”), which is calculated as high-quality liquid assets divided by net cash outflows over a 30 day stress period. Only assets with high potential to be easily converted into cash are included in high-quality liquid assets.

	2020 actual	2020 NBG requirement	2019 actual	2019 NBG requirement
Average liquidity ratio	55%	>=30%	58%	>=30%
Total liquidity coverage ratio	167%	>=100%	164%	>=100%
Liquidity coverage ratio (GEL)	167%	>=75%	172%	>=75%
Liquidity coverage ratio (FC)	166%	>=100%	153%	>=100%

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 2020 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.

38 Financial Risk Management (Continued)

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
Non-derivative financial liabilities and commitments						
Due to other banks	304,163	-	-	-	-	304,163
Customer accounts – individuals	164,478	66,091	88,431	36,743	5,755	361,498
Customer accounts – other	399,169	107,688	28,381	40,101	18,349	593,688
Other borrowed funds	16,506	158,733	72,027	259,408	-	506,674
Lease liabilities	117	506	547	3,080	845	5,095
Insurance liabilities	3,213	510	2,396	-	-	6,119
Other financial liabilities	5,297	212	583	210	-	6,302
Subordinated debt	-	562	562	4,495	16,617	22,236
Total non-derivative financial liabilities	**892,943**	**334,302**	**192,927**	**344,037**	**41,566**	**1,805,775**
Derivative financial instruments						
Gross settled:						
- foreign exchange forward contracts	-	1,187	-	-	-	1,187
Total derivative financial instruments	**-**	**1,187**	**-**	**-**	**-**	**1,187**
Financial guarantees	36,779					36,779
Undrawn credit related commitments	70,872	-	-	-	-	70,872
Total potential future payments of financial obligations	**1,000,594**	**335,489**	**192,927**	**344,037**	**41,566**	**1,914,613**

38 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2019 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
Non-derivative financial liabilities and commitments						
Due to other banks	183,984	-	-	-	-	183,984
Customer accounts – individuals	149,335	54,233	85,976	45,679	5,093	340,316
Customer accounts – other	246,700	71,205	102,264	19,217	576	439,962
Other borrowed funds	6,505	161,947	68,457	226,788	5,020	468,717
Lease liabilities	101	433	434	1,795	974	3,737
Insurance liabilities	4,189	630	4,009	-	-	8,828
Other financial liabilities	2,219	338	-	-	-	2,557
Subordinated debt	-	492	492	3,934	15,527	20,445
Total non-derivative financial liabilities	**593,033**	**289,278**	**261,632**	**297,413**	**27,190**	**1,468,546**
Financial guarantees	57,858					57,858
Undrawn credit related commitments	65,965	-	-	-	-	65,965
Letters of credit	600	518	-	-	-	1,118
Total potential future payments of financial obligations	**717,456**	**289,796**	**261,632**	**297,413**	**27,190**	**1,593,487**

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.

Payments in respect of gross settled forwards will be accompanied by related cash inflows. 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.

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.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts 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 net of impairment provisions, and based on the expected timing of cash inflows. 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.

38 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2020 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
At 31 December 2020						
Non-derivative financial assets						
Cash and cash equivalents	405,089	-	-	-	-	405,089
Mandatory cash balances with the NBG	198,239	-	-	-	-	198,239
Due from other banks	1,812	3,449	8,163	-	-	13,424
Investments in debt securities	86,703	35,883	28,643	107,201	27,203	285,633
Investment in equity securities	-	-	-	-	63	63
Loans and advances to customers	59,381	177,449	124,207	404,255	309,961	1,075,253
Finance leases to customers	8	43	74	4,983	-	5,108
Insurance assets	657	3,648	1,541	-	-	5,846
Other financial assets	1,171	-	-	-	162	1,333
Total non-derivative financial assets	**753,060**	**220,472**	**162,628**	**516,439**	**337,389**	**1,989,988**
Non-derivative financial liabilities						
Due to other banks	304,163	-	-	-	-	304,163
Customer accounts – individuals	36,176	69,864	92,676	62,441	94,609	355,766
Customer accounts – other	103,149	123,891	33,742	130,581	191,586	582,949
Other borrowed funds	57,218	150,283	73,992	195,519	-	477,012
Lease liabilities	114	397	438	2,958	905	4,812
Insurance liabilities	3,213	510	2,396	-	-	6,119
Other financial liabilities	5,297	212	583	210	-	6,302
Subordinated debt	-	-	-	-	16,368	16,368
Total non-derivative financial liabilities	**509,330**	**345,157**	**203,827**	**391,709**	**303,468**	**1,753,491**
Financial and performance guarantees	313	-	-	-	-	313
Undrawn credit related commitments	7,087	-	-	-	-	7,087
Net liquidity gap based on expected maturities	**236,330**	**(124,685)**	**(41,199)**	**124,730**	**33,921**	**229,097**
Cumulative liquidity gap based on expected maturities	**-**	**111,645**	**70,446**	**195,176**	**229,097**	

38 Financial Risk Management (Continued)

The expected maturities analysis of financial instruments at 31 December 2019 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
At 31 December 2019						
Non-derivative financial assets						
Cash and cash equivalents	248,700	-	-	-	-	248,700
Mandatory cash balances with the NBG	177,989	-	-	-	-	177,989
Due from other banks	-	287	6,899	-	-	7,186
Investments in debt securities	28,836	6,256	50,809	105,660	11,008	202,569
Investment in equity securities	-	-	-	-	63	63
Loans and advances to customers	44,731	118,559	168,008	397,040	256,656	984,994
Finance leases to customers	-	20	129	2,977	-	3,126
Insurance assets	8,798	-	-	-	-	8,798
Other financial assets	575	20	466	-	143	1,204
Total non-derivative financial assets	**509,629**	**125,142**	**226,311**	**505,677**	**267,870**	**1,634,629**
Non-derivative financial liabilities						
Due to other banks	183,984	-	-	-	-	183,984
Customer accounts – individuals	35,710	59,323	87,702	74,442	83,140	340,317
Customer accounts – other	49,253	83,580	106,461	89,154	111,515	439,963
Other borrowed funds	-	35,309	27,446	340,650	25,521	428,926
Lease liabilities	101	433	434	1,795	974	3,737
Insurance liabilities	4,189	630	4,009	-	-	8,828
Other financial liabilities	2,219	338	-	-	-	2,557
Subordinated debt	-	-	-	-	14,410	14,410
Total non-derivative financial liabilities	**275,456**	**179,613**	**226,052**	**506,041**	**235,560**	**1,422,722**
Financial and performance guarantees	640	-	-	-	-	640
Letters of credit	600	516	-	-	-	1,116
Undrawn credit related commitments	6,596	-	-	-	-	6,596
Net liquidity gap based on expected maturities	**226,336**	**(54,987)**	**259**	**(364)**	**32,310**	**203,554**
Cumulative liquidity gap based on expected maturities	**-**	**171,349**	**171,608**	**171,244**	**203,554**	

Mandatory reserve with NBG is classified on on-demand category as they are created to support the bank's capability to meet its obligations in the event of an unforeseen interruption of cash flows. Overdue assets over 90 days are reflected in "over 5 years" time package.

Amounts for financial and performance guarantees and undrawn credit lines are disclosed based on expected cash outflows. 10% of total credit line commitments are expected to be utilised and disclosed as expected cash outflow.

Customer accounts expected maturities are calculated according to VaR methodology, outflow rates are calculated at 95% confidence interval for each time bucket.

38 Financial Risk Management (Continued)

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 2020 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 necessity arises.

39 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.

Under the current capital requirements the banks are to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level.

39 Management of Capital (Continued)

In response to the COVID-19 outbreak the NBG introduced facilitating incentives which included utilization of capital buffers during the financial stress by lowering the capital requirements allowing to absorb potential charges to the related to COVID-19 impacted assets and continue ordinary business activities and funding removing pressure on Capital ratios.

NBG has introduced following facilitating incentives in Capital Adequacy requirements for commercial banks.
- Release of the capital conservation buffer (2.5% of the risk-weighted assets);
- Release of the portion of the pillar 2 buffer (2/3 of the currency induced credit risk buffer);'

- Postponing the phasing in of additional capital buffer from CAR to CET1 requirements in March 2020.

The Bank have complied with all NBG's capital requirements throughout 2020 and 2019.

The following Capital adequacy report of the Bank is prepared under standalone basis in accordance with NBG standards:

In thousands of Georgian Lari	**2020 Pillar I/II**	**2019 Pillar I/II**
Primary capital		
Share capital	16,181	16,181
Share premium	76,413	76,413
Retained earnings according to the NBG regulations	138,460	113,630
Revaluation reserve	9,513	9,513
Current year profit according to NBG regulations	5,972	24,830
Primary capital Before Correction	**246,539**	**240,567**
Primary capital Corrections	(14,424)	(11,546)
Total primary capital after correction	**232,115**	**229,021**
Secondary capital		
Subordinated debt	16,055	14,052
General reserve	17,313	15,560
Total secondary capital	**33,368**	**29,612**
Total regulatory capital	**265,483**	**258,633**
Risk weighted assets, combining credit, market and operational risks	**1,519,304**	**1,359,786**
Minimum NBG requirement for Tier 1 ratio	***7.2%***	***10.7%***
Tier I ratio	**15.3%**	**16.8%**
Minimum NBG requirement for Regulatory capital ratio	***12.3%***	***16.2%***
Regulatory capital ratio	**17.5%**	**19.0%**

40 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 internal and external 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 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 to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Bank was 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 some estimations and appealed to court, disputes were not settled as at 31 December 2020. The onsite inspection is concluded, the total accruals made after inspection are given in below table. The Bank has created provision of GEL 59 thousand on positions where it is probable that the Bank will have to make additional payments. For the rest of the disputed amount the Group's management believes that it is not likely that any significant loss will eventuate and no provisions are created.

In thousands of Georgian Lari	**31 December, 2020**
Total disputed amount, including additional tax and penalties	415
Provision created	(59)
Tax contingent liability	**356**

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 at 31 December 2020. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases at 31 December 2020 are as follows:

In thousands of Georgian Lari	**2020**	**2019**
Not later than 1 year	19	17
Total operating lease commitments	**19**	**17**

40 Contingencies and Commitments (continued)

The Group leases a part of premises rented for location of equipment (ATMs) under operating leases which are not included into Right of Use Assets. 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

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.

During 2020, the Bank has breached Open credit exposure covenants under the loan agreements with BSTDB, IFC, GGF, EFSE, OFID resulted from the increased exposure of restructured loans affected by the COVID-19 modifications. The Bank has obtained waivers for the covenant and is not in breach of contracts terms as at 31 December 2020.

The Bank is 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 I.

During 2020 the Bank has breached Capital covenant under the loan agreements with GGF, EFSE. The Bank has obtained waivers for the covenant and is not in breach of contracts terms as at 31 December 2020.

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

In thousands of Georgian Lari	**2020**	**2019**
Tier 1 capital		
Share capital and share premium	90,980	90,980
Retained earnings	201,381	178,499
Total tier 1 capital	**292,361**	**269,479**
Tier 2 capital		
Revaluation reserves	9,165	9,165
Subordinated debt	16,368	14,410
Total tier 2 capital	**25,533**	**23,575**
Total capital	**317,894**	**293,054**

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.

40 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of Georgian Lari	**Note**	**2020**	**2019**
Financial guarantees issued		36,860	57,858
Undrawn credit line commitments		71,088	65,965
Import letters of credit		-	1,118
Total loan commitments		**107,948**	**124,941**
Less: Provision for financial guarantees	25	(81)	(349)
Less: Provision for loan commitments		(216)	(292)
Less: Provision for Import letters of credit		-	(11)
Less: Commitment collateralised by cash deposits		(14,954)	(17,811)
Total credit related commitments, net of provision and cash covered exposures		**92,697**	**106,478**

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 31 December 2019	**81**	**268**	**349**	**57,858**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	-	-	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Issued guarantees	58	-	58	24,811
Derecognised during the period	(62)	(268)	(330)	(47,490)
Total movements with impact on provision for credit related commitments for the year	**(4)**	**(268)**	**(272)**	**(22,679)**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	4	-	4	1,682
Provision for financial guarantees at 31 December 2020	**81**	**-**	**81**	**36,861**

40 Contingencies and Commitments (Continued)

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 31 December 2018	**51**	**44**	**95**	**55,573**
Movements with impact on provision for credit related commitments charge for the period:				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(268)	268	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	5	(5)	-	-
Issued guarantees	336	-	336	40,559
Derecognised during the period	(46)	(40)	(86)	(37,973)
Total charge to profit or loss for the year	**27**	**223**	**250**	**2,586**
Movements without impact on provision for credit related commitments charge for the period:				
FX movements	4	-	4	(301)
Provision for financial guarantees at 31 December 2019	**82**	**267**	**349**	**57,858**

40 Contingencies and Commitments (Continued)

Movements in the provision for loan commitments were as follows.

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 provision**	**Gross committed amount**
Provision for loan commitments at 31 December 2019	**98**	**90**	**104**	**292**	**65,965**
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(14)	14	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5)	(53)	58	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	37	(37)	-	-	-
Issued loan commitments	94	54	-	148	42,675
Derecognised during the period*	(72)	(57)	(104)	(233)	(41,461)
Total charge to profit or loss for the year	**40**	**(79)**	**(46)**	**(85)**	**1,214**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	4	5	-	9	3,909
Provision for loan commitments at 31 December 2020	**142**	**16**	**58**	**216**	**71,088**

40 Contingencies and Commitments (Continued)

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 provision	Gross committed amount
Provision for loan commitments at 31 December 2018	124	139	-	263	77,771
Movements with impact on provision for credit related commitments charge for the period:					
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(13)	13	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(101)	(3)	104	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(1)	-	-	-
Issued loan commitments	189	35	-	224	55,228
Derecognised during the period*	(112)	(93)	-	(205)	(67,234)
Total charge to profit or loss for the year	**(36)**	**(49)**	**104**	**19**	**(12,006)**
Movements without impact on provision for credit related commitments charge for the period:					
FX movements	10	-	-	10	200
Provision for loan commitments at 31 December 2019	**98**	**90**	**104**	**292**	**65,965**

* Derecognised during the period line includes expiry of commitments and disbursement of loans.

40 Contingencies and Commitments (Continued)

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2020 is as follows.

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**
Issued financial guarantees				
- Excellent	5,260	-	-	5,260
- Good	31,600	-	-	31,600
Unrecognised gross amount	**36,860**	**-**	**-**	**36,860**
Provision for financial guarantees	**(81)**	**-**	**-**	**(81)**
Loan commitments				
- Excellent	9,319	-	-	9,319
- Good	51,267	-	-	51,267
- Satisfactory	-	9,590	-	9,590
- Special monitoring	-	48	-	48
- Default	-	-	864	864
Unrecognised gross amount	**60,586**	**9,638**	**864**	**71,088**
Provision for loan commitments	**(142)**	**(16)**	**(58)**	**(216)**

An analysis of credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows.

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**
Issued financial guarantees				
- Excellent	5,090	-	-	5,090
- Good	41,387	-	-	41,387
- Satisfactory	-	11,381	-	11,381
Unrecognised gross amount	**46,477**	**11,381**	**-**	**57,858**
Provision for financial guarantees	**(81)**	**(268)**	**-**	**(349)**
Loan commitments				
- Excellent	2,326	603	-	2,929
- Good	55,214	5,884	-	61,098
- Satisfactory	-	1,196	-	1,196
- Special monitoring	-	401	-	401
- Default	-	-	341	341
Unrecognised gross amount	**57,540**	**8,084**	**341**	**65,965**
Provision for loan commitments	**(98)**	**(90)**	**(104)**	**(292)**

40 Contingencies and Commitments (Continued)

Credit lines on clients which have fallen in stage 3 level at the reporting date and had unutilized credit lines by the end of the date were also assigned of the same stage, but are not entitled to draw these amounts while in default.

Refer to Note 0 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 total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was GEL 403 thousand at 31 December 2020 (2019: GEL 321 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**	**December 31, 2020**	**December 31, 2019**
Construction		16,591	13,183
Energy		4,730	4,330
Real Estate Management and Development		1,532	1,832
Service		940	956
Financial Institutions		600	41
Trade		481	1,968
Other		2,838	1,706
Total guaranteed amounts		**27,712**	**24,016**

40 Contingencies and Commitments (Continued)

Movements in provisions for performance guarantees are as follows:

In thousands of Georgian Lari	**Note**	**December 31, 2020**	**December 31, 2019**

Carrying amount at 1 January	**291**	**17**
Initial recognition of issued performance guarantees	156	274
Utilisation of provision	(228)	(10)
FX movements	13	10
Carrying amount at 31 December	**232**	**291**

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

		December 31, 2020		December 31, 2019	
In thousands of Georgian Lari	**Notes**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Investments in debt securities at FVOCI	10, 21	23,455	21,957	-	-
Investments in debt securities at AC	10, 21	215,203	200,052	99,855	94,862
Mortgage Loan portfolio pledged with NBG		64,390	51,566	60,492	48,138
SME Loan portfolio pledged with NBG		19,017	18,900	-	-
Total		**322,065**	**292,475**	**160,347**	**143,000**

At 31 December 2020, restricted cash balances are balances of GEL 164 thousand (2019: GEL 143 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the NBG of GEL 198,239 thousand (2019: GEL 177,989 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations, as disclosed in Note 8.

41 Offsetting Financial Assets and Financial Liabilities

At 31 December 2020 and 31 December 2019 no financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented.

42 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.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statement of financial position at 31 December 2020 were classified in their entirety based on the lowest level of input that is significant to the asset or liability's fair value measurement. The management considered the impacts of the COVID-19 pandemic on the fair value assessments, and determined no impairment indicators to be present. The Group will continue to monitor these fair values in future periods if, or as, circumstances change.

(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 2020				**31 December 2019**			
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 debt securities								
- Georgian government bonds	-	23,914	-	23,914	-	-	-	-
Investments in equity securities								
- Corporate shares	-	63	-	63	-	63	-	63
NON-FINANCIAL ASSETS								
- Premises and equipment	-	-	22,447	22,447	-	-	21,246	21,246
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**23,977**	**22,447**	**46,424**	**-**	**63**	**21,246**	**21,309**

The non-current assets held for sale are measured at the lower of cost and FV less cost to sell as of 31 December 2020 and 31 December 2019. The fair value belongs to level 3 measurements in the fair value hierarchy. The fair value is GEL 1,672 thousand (2019: GEL 979 thousand).

42 Fair Value Disclosures (continued)

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 2020 and 31 December 2019 are as follows:

	Fair value at 31 December				
In thousands of Georgian Lari	**2020**	**2019**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**
ASSETS AT FAIR VALUE					
NON-FINANCIAL ASSETS					
- Premises	22,448	21,246	Market comparable assets	Price per square meter	Commercial area 3,640-10,831 Office area 2,460-4,100 Garage 1,179-1,591
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**22,448**	**21,246**			

42 Fair Value Disclosures (Continued)

(b) 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 2020				**31 December 2019**			
In thousands of Georgian 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	42,705	-	-	42,705	37,439	-	-	37,439
- Cash balances with the NBG	-	195,090	-	195,090	-	41,859	-	41,859
- Correspondent accounts and overnight placements	-	91,427	-	91,427	-	56,064	-	56,064
- Placements with other banks with original maturities of less than three months	-	75,867	-	75,867	-	113,339	-	113,339
Due from other banks								
- Short-term placements with other banks with original maturities of more than three months	-	13,424	-	13,424	-	7,186	-	7,186
Mandatory balances with the NBG	-	198,238	-	198,238	-	177,989	-	177,989
Loans and advances to customers at AC								
- Corporate loans	-	-	907,250	863,913	-	-	805,945	784,486
- Mortgage loans	-	-	157,318	150,565	-	-	137,497	136,223
- Consumer loans	-	-	61,563	57,935	-	-	64,314	60,172
- Credit cards	-	-	3,184	2,840	-	-	4,623	4,112
***Finance* lease**	-	-	5,108	5,108	-	-	3,126	3,126
Investments in debt securities								
- Georgian government treasury bonds	-	203,667		202,528	-	141,151	-	145,160
- Georgian government treasury bills	-	28,216		28,166	-	45,412	-	45,623
- Corporate bonds	-		34,545	31,071	-	-	14,410	11,786
Insurance assets	-	5,846	-	5,846	-	8,798	-	8,798
Other financial assets	-	1,334	-	1,334	-	1,204	-	1,204
NON-FINANCIAL ASSETS								
- Investment properties	-	-	1,203	583	-	-	2,011	959
TOTAL	**42,705**	**813,108**	**1,170,171**	**1,966,640**	**37,439**	**547,590**	**1,031,926**	**1,635,525**

42 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:

	31 December 2020				31 December 2019			
In thousands of Georgian 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
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	1	-	1	-	1	-	1
- Short-term placements of other banks	-	40,233	-	40,233	-	40,838	-	40,838
- Short-term loans of NBG		263,929		263,929	-	143,145	-	143,145
Customer accounts								
- Current/settlement accounts of state and public organisations	-	135,576	-	135,576	-	82,519	-	82,519
- Term deposits of state and public organisations	-	-	106,580	96,406	-	-	46,203	44,381
- Current/settlement accounts of other legal entities	-	213,718	-	213,718	-	154,936	-	154,936
- Term deposits of other legal entities	-		137,813	137,249	-	-	156,305	155,118
- Current/demand accounts of individuals	-	139,447		139,447	-	130,079	-	130,079
- Term deposits of individuals	-	-	222,050	216,319	-	-	210,237	201,837
Other borrowed funds								
- Borrowings from International Financial institutions	-	506,674	-	477,012	-	468,718	-	428,926
Insurance Liabilities	-	6,119	-	6,119	-	8,828	-	8,828
Lease Liabilities	-	4,812	-	4,812	-	3,737	-	3,737
Other financial liabilities	-	6,301	-	6,301	-	2,557	-	2,557
Subordinated debt								
- Subordinated debt	-	22,237	-	16,368	-	20,445	-	14,410
TOTAL	**-**	**1,339,047**	**466,443**	**1,753,490**	**-**	**1,055,803**	**412,745**	**1,411,312**

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 0.

The fair value of these liabilities reflects these credit enhancements.

43 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.

The following table provides a reconciliation of financial assets with these measurement categories and finance lease receivables as of 31 December 2020:

In thousands of Georgian Lari	**Debt and equity instruments at FVOCI**	**AC**	**Finance lease receivables**	**Total**
ASSETS				
Cash and cash equivalents	**-**	**405,089**	**-**	**405,089**
Mandatory cash balances with the NBG	**-**	**198,238**	**-**	**198,238**
Due from other banks	**-**	**13,424**	**-**	**13,424**
Investments in debt securities	**23,868**	**261,765**	**-**	**285,633**
- Georgian government treasury bonds	23,868	202,528	-	226,396
- Georgian government treasury bills	-	28,166	-	28,166
- Corporate bonds	-	31,071	-	31,071
Investments in equity securities	**63**	**-**	**-**	**63**
Loans and advances to customers	**-**	**1,075,253**	**-**	**1,075,253**
- Standard lending	-	863,913	-	863,913
- Mortgage loans	-	150,565	-	150,565
- Consumer loans	-	57,935	-	57,935
- Credit cards	-	2,840	-	2,840
Finance lease assets	**-**	**-**	**5,108**	**5,108**
Insurance receivables	**-**	**5,846**	**-**	**5,846**
Other financial assets	**-**	**1,334**	**-**	**1,334**
TOTAL FINANCIAL ASSETS	**23,931**	**1,960,949**	**5,108**	**1,989,988**

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2019:

In thousands of Georgian Lari	**Equity instruments at FVOCI**	**AC**	**Finance lease receivables**	**Total**
ASSETS				
Cash and cash equivalents	**-**	**248,700**	**-**	**248,700**
Mandatory cash balances with the NBG	**-**	**177,989**	**-**	**177,989**
Due from other banks	**-**	**7,186**	**-**	**7,186**
Investments in debt securities	-	**202,569**	**-**	**202,569**
- Georgian government treasury bonds	-	145,160	-	145,160
- Georgian government treasury bills	-	45,623	-	45,623
- Corporate bonds	-	11,785	-	11,785
Investments in equity securities	**63**	**-**	**-**	**63**
Loans and advances to customers	-	**984,994**	**-**	**984,994**
- Standard lending	-	784,486		784,486
- Mortgage loans	-	136,223		136,223
- Consumer loans	-	60,172		60,172
- Credit cards	-	4,112		4,112
Finance lease assets	**-**	**-**	**3,126**	**3,126**
Insurance receivables	**-**	**8,798**	**-**	**8,798**
Other financial assets	**-**	**1,204**	**-**	**1,204**
TOTAL FINANCIAL ASSETS	**63**	**1,631,440**	**3,126**	**1,634,629**

44 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" under Separate Statement of Financial Position of the Bank are the investments in following entities:

In thousands of Georgian Lari		2020		2019	
Name	**Principal activities**	**Investment**	**Accumulated Profit/(loss)**	**Investment**	**Accumulated Profit/(loss)**
Basis Asset Management – Holding LLC	Asset management	3,797	(26)	3,797	36
BB Insurance JSC	Insurance	6,000	1,279	4,300	1,789
BB Leasing JSC	Leasing	11,000	961	5,000	(14)
Total		**20,797**	**2,214**	**13,097**	**1,811**

At 31 December 2020, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Other share-holders**	**Immediate parent company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**	**Other related parties**
Loans and advances to customers (contractual interest rate: 4% – 16%)	-	559	-	29	1,211	12,843	463
Credit loss allowance at 31 December 2020	-	-	-	-	(2)	(15)	(1)
Customer accounts (contractual interest rate: 2% – 12%)	444	1,918	1,514	1,451	5,932	47,618	1,552
Provisions for liabilities and charges	1	-	-	1	5	-	1
Subordinated debt (contractual interest rate: 7%)		-	16,368	-	-	-	-

The income and expense items with related parties for 2020 were as follows:

In thousands of Georgian Lari	**Ultimate share-holder**	**Signifcant share-holders**	**Immediate parent company**	**Supervisory Board**	**Manage-ment Board**	**Companies under common control**	**Other related parties**
Interest income	1	21	-	4	69	812	35
Interest expense	(24)	(67)	(166)	(35)	(224)	(1,244)	(67)
Credit loss allowance	-	(1)	-	(1)	7	(160)	3
Gains less losses from trading in foreign currencies	-	4	12	2	(4)	379	2
Foreign exchange translation gains less losses	2	(73)	(685)	(39)	(5)	(2,643)	(25)
Provision for credit related commitments	(1)	-	-	(1)	(5)	-	(1)
Administrative and other operating expenses	-	-	-	-	-	-	88

44 Related Party Transactions (Continued)

At 31 December 2020, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	676	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	2,047	-
Undrawn credit line commitments	50	38	-	111	1,491	281	103

Aggregate amounts lent to and repaid by related parties during 2020 were:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	145	-	185	2,183	11,442	166
Amounts repaid by related parties during the year	-	826	-	479	2,295	10,074	209

At 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Other share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Loans and advances to customers (contractual interest rate: 4% – 16%)	-	461	-	63	815	9,464	2,610
Credit loss allowance at 31 December 2019	-	-	-	-	(3)	(21)	(1)
Customer accounts (contractual interest rate: 2% – 12%)	410	1,884	229	1,005	3,631	26,374	5,195
Subordinated debt (contractual interest rate: 7%)	-	-	14,410	-	-	-	-

44 Related Party Transactions (Continued)

The income and expense items with related parties for 2019 were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Interest income	1	21	-	4	69	810	408
Interest expense	(24)	(67)	(166)	(35)	(224)	(880)	(122)
Credit loss allowance	-	(1)	-	(1)	7	(160)	3
Gains less losses from trading in foreign currencies	-	4	12	2	(4)	375	4
Foreign exchange translation gains less losses	2	(73)	(685)	(39)	(5)	(2,643)	304
Fee and commission income	-	-	-	-	-	5	-
Administrative and other operating expenses	-	-	-	-	-	-	110

At 31 December 2019, other rights and obligations with related parties were as follows:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Super-visory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Performance Guarantees issued by the Group at the year end	-	-	-	-	-	667	-
Financial Guarantees issued by the Group at the year end	-	-	-	-	-	1,605	-
Undrawn credit line commitments	50	44	-	106	1,064	740	139

Aggregate amounts lent to and repaid by related parties during 2019 were:

In thousands of Georgian Lari	Ultimate share-holder	Signifcant share-holders	Immediate parent company	Supervi-sory Board	Manage-ment Board	Compa-nies under common control	Other related parties
Amounts lent to related parties during the year	-	1,251	-	60	2,191	12,766	390
Amounts repaid by related parties during the year	-	1,095	-	60	2,630	4,839	3,601

A person is considered as related party only if he/she has control or joint control or significant influence over the Bank or the Group, is a member of Top Management of the Group or its parent entity.

Legal Entity is considered to be a related party if the following conditions are met: The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); The enterprise is subject of control or joint control of the following natural persons: person having control or significant influence over the Bank; Member of Top Management of the Bank, The Group or its parent Company, as well as their family members. Other related parties include companies under control of the Bank and/or family member of persons who are considered as related party and have right significant influence over the bank or the Group.

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

	2020		2019	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	494	-	475	-
Total	**494**	-	**475**	-

Key management compensation is presented below:

	2020		2019	
In thousands of Georgian Lari	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	1,413	-	1,280	-
- Short-term bonuses	749	-	2,416	1,257
Share-based compensation:				
- Equity-settled share-based compensation	20	-	483	-
Total	2,182	-	**4,179**	**1,257**

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

45 Abbreviations

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

Abbreviation	Full name
AC	Amortised Cost
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
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
ROU asset	Right of use asset
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