JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2019
Together with Independent Auditor's Report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the Shareholders and the Supervisory Board of JSC Bank of Georgia

Opinion

We have audited the consolidated financial statements of JSC Bank of Georgia and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated 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 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 (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed it
Allowance for expected credit loss and application of IFRS 9 'Financial instruments'	
Given the significance of the allowance for expected credit loss on loans to customers to the Group's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 Financial instruments ("IFRS 9"), we considered this area as a key audit matter. The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates. Both collective and individual provisioning depend on a number of assumptions and judgments such as: • Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); • Allocation of loans to stage 1, 2 or 3 using criteria set in accordance with IFRS 9; • Inputs and assumptions used to estimate the impact of multiple economic scenarios; • Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and • Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral • Accuracy and adequacy of financial statement disclosures. As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses. Information on the impairment of loans to customers is included in Note 10, Loans to Customers and Finance Lease Receivables and Note 27, Risk Management, to the consolidated financial statements.	We obtained an understanding of the expected credit loss process and assessed the design and operating effectiveness of key controls, which included controls over the identification of loans to be subject to the individual allowance assessment, classification of borrowers into their respective risk grades and impairment stages, credit monitoring, data accuracy and completeness. For testing automated controls, we involved our IT specialists. We focused on analysis of the following areas during our audit: • evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; • assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and collective basis based on quantitative and qualitative criteria; • testing allocation of loans to respective impairment stages based on predefined criteria; • testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers. Our audit procedures included evaluation of expected credit loss methodology developed by the Group to calculate the allowance for loans and advances to customers. We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and collective basis. We evaluated consistency of application of the criteria selected by the management as of the reporting date. To test allowance calculated on a collective basis, with the support of our internal modelling specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. We also analysed the sensitivity of allowances to changes in key model inputs. For a sample of significant credit-impaired corporate exposures, we challenged assumptions on

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Key audit matter	How our audit addressed it
	estimated future cash flows, including value of collateral and probabilities of expected outcomes. We assessed the adequacy and appropriateness of disclosures on the impairment of loans to customers.
Valuation of investment properties	
The Group applies the fair value model for investment properties. The Group engaged a professional valuer to determine the fair value of its investment properties. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, which increases the judgement involved in determining these valuations. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment properties is included to Note 3, Summary of Significant Accounting Policies, Note 11, Investment Properties, and Note 28, Fair Value Measurements, to the consolidated financial statements.	We engaged our Real Estate specialists to evaluate a sample of the Group's real estate valuations. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Group, analysis of the methods and assumptions used and testing of the data provided by the valuers. We assessed recognition of the results of the valuations and the Group's disclosures in relation to the valuation of investment properties.

Other information included in the Group's 2019 Annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.
Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor’s report is Oleg Youshenkov.

Oleg Youshenkov

For and on behalf of EY LLC

Tbilisi, Georgia

4 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Thousands of Georgian Lari)

	Notes	2019	2018*	2017*
Assets				
Cash and cash equivalents	7	2,159,205	1,220,524	1,501,654
Amounts due from credit institutions	8	1,613,674	1,305,191	1,216,343
Investment securities	9	1,761,023	1,932,553	1,613,759
Loans to customers and finance lease receivables	10	11,766,754	9,229,320	7,510,884
Accounts receivable and other loans		2,585	19,702	1,803
Prepayments		51,117	50,068	55,953
Inventories		5,983	8,787	16,328
Right of use assets		95,990	-	-
Investment properties	11	228,666	155,183	202,534
Property and equipment	12	339,726	312,017	305,474
Goodwill	13	33,453	33,453	33,453
Intangible assets	12	95,471	76,569	50,948
Income tax assets	14	282	19,357	826
Other assets	15	133,010	118,455	110,757
Assets held for sale		36,284	42,408	-
Total assets		**18,323,223**	**14,523,587**	**12,620,716**
Liabilities				
Client deposits and notes	16	10,136,695	8,196,551	7,123,866
Amounts owed to credit institutions	17	3,684,921	2,749,348	3,162,209
Debt securities issued	18	2,140,781	1,711,032	749,655
Lease liability		94,518	-	-
Accruals and deferred income		50,064	44,730	37,658
Income tax liabilities	14	37,918	28,833	20,095
Other liabilities	15	100,929	62,065	45,314
Total liabilities		**16,245,826**	**12,792,559**	**11,138,797**
Equity	20			
Share capital		27,994	27,994	27,821
Additional paid-in capital		183,875	174,011	141,154
Treasury shares		(10)	(9)	(9)
Other reserves		(30,874)	11,048	10,212
Retained earnings		1,896,412	1,517,984	1,302,741
Total equity		**2,077,397**	**1,731,028**	**1,481,919**
Total liabilities and equity		**18,323,223**	**14,523,587**	**12,620,716**

** Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the changes made in the presentation of financial statements as described in Note 5.*

Signed and authorised for release on behalf of the Management Board:

Archil Gachechiladze Chief Executive Officer

Sulkhan Gvalia Chief Financial Officer

4 March 2020

The accompanying notes on pages 6 to 102 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Notes	*2019*	*2018**	*2017**
Interest income calculated using EIR method		1,388,391	1,289,431	1,095,921
Other interest income		25,610	17,947	9,464
Interest income		**1,414,001**	**1,307,378**	**1,105,385**
Interest expense		(622,130)	(569,879)	(460,838)
Deposit insurance fees		(8,298)	(5,955)	-
Net interest income	21	**783,573**	**731,544**	**644,547**
Fee and commission income		278,251	223,320	191,000
Fee and commission expense		(125,969)	(93,796)	(74,730)
Net fee and commission income	22	**152,282**	**129,524**	**116,270**
Net foreign currency gain		118,590	125,660	85,740
Net other (expense) income		17,728	4,986	14,186
Operating income		**1,072,173**	**991,714**	**860,743**
Salaries and other employee benefits	23	(223,657)	(202,225)	(186,885)
Administrative expenses	23	(97,659)	(108,147)	(95,007)
Depreciation, amortisation and impairment		(73,275)	(42,413)	(38,414)
Other operating expenses		(3,984)	(3,756)	(3,063)
Operating expenses		**(398,575)**	**(356,541)**	**(323,369)**
Profit from associates		789	1,339	1,311
Operating income before cost of risk		**674,387**	**636,512**	**538,685**
Expected credit loss /impairment charge on loans to customers	24	(87,734)	(140,192)	(156,558)
Expected credit loss /impairment charge on finance lease receivables	24	(885)	(164)	(475)
Other expected credit (loss) / recovery	24	347	(2,245)	-
Impairment charge on other assets and provisions		(12,180)	(17,738)	(11,316)
Cost of risk		**(100,452)**	**(160,339)**	**(168,349)**
Net operating income before non-recurring items		**573,935**	**476,173**	**370,336**
Net non-recurring items	25	(4,591)	(76,066)	(3,589)
Profit before income tax expense		**569,344**	**400,107**	**366,747**
Income tax expense	14	(56,457)	(56,579)	(27,840)
Profit for the year		**512,887**	**343,528**	**338,907**
Total profit attributable to:				
– shareholders of the Bank		512,887	343,528	338,761
– non-controlling interests		-	-	146
		512,887	**343,528**	**338,907**
Basic and diluted earnings per share	20	18.3280	12.3452	12.1803

** Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the changes made in the presentation of financial statements as described in Note 5.*

The accompanying notes on pages 6 to 102 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Notes	2019	2018	2017
Profit for the year		**512,887**	**343,528**	**338,907**
Other comprehensive (loss) income from continuing operations				
Other comprehensive income (loss) from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Net change in fair value on investments in debt instruments measured at FVOCI	9	(41,452)	2,199	n/a
– Unrealized revaluation of available-for-sale securities		n/a	n/a	3,595
– Realised gain on financial assets measured at FVOCI		(5,473)	1,023	n/a
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		n/a	n/a	(2,058)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		(129)	238	n/a
– Gain (loss) from currency translation differences		9,927	(4,825)	(3,259)
Income tax impact	14	-	(265)	(551)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(37,127)**	**(1,630)**	**(2,273)**
Other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment reclassified to investment property		-	1,043	3,483
– Net loss on investments in equity instruments designated at FVOCI		(54)	(2,525)	n/a
Income tax impact	14	-	-	(781)
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**(54)**	**(1,482)**	**2,702**
Other comprehensive (loss) income for the year, net of tax		**(37,181)**	**(3,112)**	**429**
Total comprehensive income for the year		**475,706**	**340,416**	**339,336**
Total comprehensive income attributable to:				
– shareholders of the Bank		475,706	340,416	339,190
– non-controlling interests		-	-	146
		475,706	**340,416**	**339,336**

The accompanying notes on pages 6 to 102 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2016	**27,821**	**216,030**	**(9)**	**252**	**975,314**	**1,219,408**	**13,736**	**1,233,144**
Effect of early adoption of IFRS 15	-	-	-	-	(10,827)	(10,827)	-	(10,827)
1 January 2017	**27,821**	**216,030**	**(9)**	**252**	**964,487**	**1,208,581**	**13,736**	**1,222,317**
Profit for the year	-	-	-	-	338,761	338,761	146	338,907
Other comprehensive (loss) income for the year	-	-	-	936	(507)	429	-	429
Total comprehensive income for the year	**-**	**-**	**-**	**936**	**338,254**	**339,190**	**146**	**339,336**
Increase in equity arising from share-based payments	-	50,394	-	-	-	50,394	-	50,394
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	13,882	-	13,882	(13,882)	-
Aciqusition of entity under common control	-	-	-	(4,858)	-	(4,858)	-	(4,858)
Contributions under share-based payment plan (Note 26)	-	(125,270)	-	-	-	(125,270)	-	(125,270)
31 December 2017	**27,821**	**141,154**	**(9)**	**10,212**	**1,302,741**	**1,481,919**	**-**	**1,481,919**
Adoption of IFRS 9 (Note 3)	-	-	-	3,268	(7,605)	(4,337)	-	(4,337)
1 January 2018	**27,821**	**141,154**	**(9)**	**13,480**	**1,295,136**	**1,477,582**	**-**	**1,477,582**
Profit for the year	-	-	-	-	343,528	343,528	-	343,528
Other comprehensive (loss) income for the year	-	-	-	(717)	(2,395)	(3,112)	-	(3,112)
Total comprehensive income for the year	**-**	**-**	**-**	**(717)**	**341,133**	**340,416**	**-**	**340,416**
Transfer of property and equipment revaluation reserve, net of tax	-	-	-	(4,240)	4,240	-	-	-
Increase in equity arising from share-based payments	-	82,483	-	-	-	82,483	-	82,483
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Sale of investments in equity instruments designated at FVOCI GCAP shares	-	-	-	2,525	(2,525)	-	-	-
Vesting of investment business shares to employees as a result of demerger	-	2,649	-	-	-	2,649	-	2,649
Issue of share capital (Note 20)	173	13,145	-	-	-	13,318	-	13,318
Contributions under share-based payment plan (Note 26)	-	(65,420)	-	-	-	(65,420)	-	(65,420)
31 December 2018	**27,994**	**174,011**	**(9)**	**11,048**	**1,517,984**	**1,731,028**	**-**	**1,731,028**
Profit for the year	-	-	-	-	512,887	512,887	-	512,887
Other comprehensive loss for the year	-	-	-	(41,922)	4,741	(37,181)	-	(37,181)
Total comprehensive income for the year	**-**	**-**	**-**	**(41,922)**	**517,628**	**475,706**	**-**	**475,706**
Increase in equity arising from share-based payments	-	61,272	-	-	-	61,272	-	61,272
Purchase of treasury shares	-	(106)	(1)	-	-	(107)	-	(107)
Dividends to shareholders of the Bank (Note 20)	-	-	-	-	(139,200)	(139,200)	-	(139,200)
Contributions under share-based payment plan (Note 26)	-	(51,302)	-	-	-	(51,302)	-	(51,302)
31 December 2019	**27,994**	**183,875**	**(10)**	**(30,874)**	**1,896,412**	**2,077,397**	**-**	**2,077,397**

The accompanying notes on pages 6 to 102 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Notes	*2019*	*2018**	*2017**
Cash flows from operating activities				
Interest received		1,384,282	1,286,400	1,086,379
Interest paid		(613,347)	(571,907)	(458,060)
Fees and commissions received		255,032	247,785	186,007
Fees and commissions paid		(125,969)	(93,796)	(74,730)
Net realised gains from foreign currencies		100,554	92,651	66,502
Recoveries of loans to customers previously written off	10	35,524	35,306	52,792
Cash paid for derivatives		(11,814)	-	-
Other income received (expense paid)		1,993	23,731	(11,284)
Salaries and other employee benefits paid		(166,867)	(152,189)	(136,014)
General and administrative and operating expenses paid		(77,334)	(111,379)	(81,666)
Cash flows from operating activities before changes in operating assets and liabilities		**782,054**	**756,602**	**629,926**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(193,008)	(50,741)	(294,287)
Loans to customers and finance lease receivables		(2,139,802)	(1,744,165)	(1,463,949)
Prepayments and other assets		10,198	(90,749)	(12,980)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		834,394	(469,057)	(271,170)
Debt securities issued		45,198	943,026	568,250
Client deposits and notes		1,431,541	902,776	1,436,334
Other liabilities		22,825	5,704	(4,799)
Net cash flows from operating activities before income tax		**793,400**	**253,396**	**587,325**
Income tax paid		(28,297)	(64,508)	(9,303)
Net cash flows from operating activities		**765,103**	**188,888**	**578,022**
Cash flows from (used in) investing activities				
Acquisition of subsidiaries, net of cash acquired		-	-	(8,133)
Net sales (purchases) of investment securities		121,209	(311,752)	(321,379)
Proceeds from sale of investment properties and assets held for sale		64,665	85,143	11,067
Proceeds from sale of property and equipment and intangible assets		5,315	1,638	2,015
Purchase of property and equipment and intangible assets		(107,067)	(81,479)	(104,601)
Dividends received		210	-	-
Net cash flows from (used in) investing activities		**84,332**	**(306,450)**	**(421,031)**
Cash flows from (used in) financing activities				
Proceeds from additional Tier 1 debt securities issued		268,160	-	-
Cash payments for the principal portion of the lease liability		(8,205)	-	-
Dividends paid		(138,926)	(119,760)	(211)
Purchase of treasury shares		(107)	-	-
Contributions under share-based payment plan (Note 26)		(51,302)	(65,420)	(125,270)
Issue of share capital (Note 20)		-	13,318	-
Purchase of interests in existing subsidiaries		-	-	(21,701)
Net cash from (used in) financing activities		**69,620**	**(171,862)**	**(147,182)**
Effect of exchange rates changes on cash and cash equivalents		19,633	8,374	4,675
Effect of expected credit losses on cash and cash equivalents		(7)	(80)	n/a
Net increase (decrease) in cash and cash equivalents		**938,681**	**(281,130)**	**14,484**
Cash and cash equivalents, beginning of the year	7	**1,220,524**	**1,501,654**	**1,487,170**
Cash and cash equivalents, end of the year	7	**2,159,205**	**1,220,524**	**1,501,654**

** Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the changes made in the presentation of financial statements as described in Note 5.*

The accompanying notes on pages 6 to 102 are an integral part of these financial statements.

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2019 the Bank had 272 operating outlets in all major cities of Georgia (31 December 2018: 276, 31 December 2017: 286). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia. The Bank's identification number is 204378869.

As at 31 December 2017 BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) was a public limited liability company incorporated in England and Wales and represented the ultimate parent company of the Bank. The shares of BGEO PLC were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012.

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in nonbanking subsidiaries by locally regulated banking entities, the Bank completed a legal restructuring in August 2015. As a result, a new holding company was established under the laws of Georgia as a parent of the Bank by BGEO PLC – JSC BGEO Group ("JSC BGEO").

On 3 July 2017, BGEO Group PLC announced its intention to demerge BGEO Group PLC into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC, by the end of the first half of 2018. The demerger (hereafter referred to as "the demerger") was completed on 29 May 2018 and as a result Bank of Georgia Group PLC ("BOGG PLC") became the 100% owner of JSC BGEO Group, principal shareholder of the Bank. As at 31 December 2019 Bank of Georgia Group PLC represented the ultimate parent company of the Bank.

The Bank and its remaining subsidiaries make up a group of companies (the "Group") mainly incorporated in Georgia and Belarus. Primary business activities include providing banking services to corporate and individual customers. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2019, 31 December 2018 and 31 December 2017, JSC BGEO was the principal shareholder of the Bank:

Shareholder	*31 December 2019*	*31 December 2018*	*31 December 2017*
JSC BGEO Group	79.78%	79.78%	99.55%
Bank of Georgia Group PLC	19.78%	19.78%	-
Others*	0.44%	0.44%	0.45%
Total	**100.00%**	**100.00%**	**100.00%**

* *Shares listed on Georgian Stock Exchange.*

2. Basis of Preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2019 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities and investment properties;
- the measurement of inventories at lower of cost and net realizable value;
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Going concern

The Bank's Management Board has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least twelve months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Subsidiaries and associates

The consolidated financial statements as at 31 December 2019, 31 December 2018 and 31 December 2017 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held			*Investments*								
Subsidiaries	*31 December 2019*	*31 December 2018*	*31 December 2017*	*31 December 2019*	*31 December 2018*	*31 December 2017*	*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal form/status*
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	-	-	-	United Kingdom	84 Brook Street, London W1K 5EH	Information Sharing and Market Research	17/8/2010	–	Limited Liability Company
Tree of Life Foundation NPO (formerly known as Bank of Georgia Future Foundation, NPO)	100.00%	100.00%	100.00%	-	-	-	Georgia	3 Pushkin Street, Tbilisi 0105	Charitable activities	25/8/2008	–	Nonprofit Organization
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	6,282	5,194	4,135	Hungary	1054 Budapest, Szabadság tér 7; Bank Center	Representative Office	18/6/2012	–	Representative Office
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	-	-	-	Turkey	Süleyman Seba Caddesi No:48 A Blok Daire 82 Akaretler Beşiktaş 34357 Istanbul	Representative Office	25/12/2013	–	Representative Office
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	3,577	3,577	3,577	Israel	7 Menahem Begin, Ramat Gan 52681, Israel	Information Sharing and Market Research	9/2/2009	–	Limited Liability Company
Professional Basketball Club Dinamo Tbilisi, LLC	(a)	(a)	100.00%	-	-	2,250	Georgia	Digomi District, Block III, Lot #38/3, Tbilisi, 0159	Sport	10/1/2011	–	Limited Liability Company
Teaching University of Georgian Bank, LLC	(b)	100.00%	100.00%	-	2,476	2,281	Georgia	#29 Mitskevichi Street, Tbilisi, 0194	Education	15/10/2013	–	Limited Liability Company
Benderlock Investments Limited	100.00%	100.00%	100.00%	58,745	58,745	58,745	Cyprus	Arch. Makariou III 58, IRIS TOWER, 8-th floor, Flat/Office 702 P.C. 1075, Nicosia	Investments	12/5/2009	13/10/2009	Limited Liability Company
⇒ JSC Belarusky Narodny Bank	99.98%	99.98%	99.98%	106,276	103,700	102,474	Belarus	Nezavisimosty ave. 87A, Minsk, 220012	Banking	16/4/1992	3/6/2008	Joint Stock Company
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	11	10	10	Belarus	Nezavisimosty ave. 87A, room 3, Minsk, 220012	Leasing	30/3/2006	3/6/2008	Limited Liability Company
Georgian Leasing Company, LLC	100.00%	100.00%	100.00%	22,414	22,414	22,414	Georgia	3-5 Kazbegi Str.,Tbilisi	Leasing	29/10/2001	31/12/2004	Limited Liability Company
⇒ Prime Leasing	100.00%	100.00%	100.00%	2	2	2	Georgia	Didube-Chughureti district, №114, Ak. Tsereteli ave., Tbilisi	Leasing	27/1/2012	21/1/2015	Limited Liability Company

	Proportion of voting rights and ordinary share capital held			*Investments*								
Associates	*31 December 2019*	*31 December 2018*	*31 December 2017*	*31 December 2019*	*31 December 2018*	*31 December 2017*	*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*	*Legal form/status*
JSC Credit info (c)	21.08%	21.08%	21.08%	12,949	12,371	11,031	Georgia	2 Tarkhnishvili St., Tbilisi, Georgia	Financial Intermediation	14/2/2005	14/2/2005	Joint Stock Company

(a) JSC Bank of Georgia sold its investment in Professional Basketball Club Dinamo Tbilisi in 2018.
(b) JSC Bank of Georgia sold its investment in Teaching University Georgian Bank in 2019.
(c) JSC Credit info initial investment amounted to GEL 95, which has been increased to GEL 9,720 as a result of investment re-measurement to fair value, when an equity investment became an associate. The share of the investment's profits or losses has also been recognised in the consolidated income statement.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. The Group consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When an equity investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

3. Summary of significant accounting policies (continued)

Investments in subsidiaries and associates in parent company financial statements

For the purposes of parent company financial statements investments in subsidiaries and associates are accounted at cost. Investments in subsidiaries and associates are accounted in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary or an associate are recognised in the parent company financial statements when the parent's right to receive the dividend is established.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, certain loans to customers, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Classification and measurement for financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- fair value through profit or loss (FVPL);
- fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments;
- fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments; and
- amortised cost.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Classification and measurement (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL if they are held for trading.

Embedded derivatives are not separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.
All derivative instruments are measured at FVPL.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;

in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

The Group measures due from credit institutions, loans to customers and other financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on the following observable factors:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- How financial assets held within particular business model are evaluated and reported to the key management personnel.

There are three business models available under IFRS 9:

- Held to collect: it is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

Financial instruments measured at amortised cost (continued)

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then the Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

Debt instruments at FVOCI

The Group measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI - option

Upon initial recognition, the Group may elect to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL

Groups of financial assets for which the business model is other than held to collect and held to collect and sell are measured at FVTPL.

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

Derivatives recorded at fair value through profit or loss

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, Forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain / loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain. From the beginning of 2019, the Group enters into certain cross-currency swap agreements to match its funding costs in certain currencies with the income generated from lending activities in these currencies. As a result, the Group economically hedges the interest rate risk, however no hedge accounting under IFRS 9 is applied Net changes in the fair value of such derivative financial instruments which are presented in net foreign currency gain excludes unwinding of the locked-in interest differential which is presented as part of interest expense to reflect risk management objective of the Group.

Financial guarantees, letter of credits and other financial commitments

Financial guarantees, letter of credits and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances and readily convertible to known amounts of cash.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

Issued additional Tier 1 instruments with perpetual maturity and discretionary interest payments are classified as financial liabilities when the instruments are not convertible into equity and the Group does not have unconditional right to avoid delivering cash upon a predetermined trigger event. Such instruments are measured at amortised cost with respective interest presented as part of Interest Expense in the Consolidated Income Statement.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

3. Summary of significant accounting policies (continued)

Leases (Policy applicable as of 1 January 2019)

The Group as a Lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group considers the commencement date of the lease the date on which the lessor makes an underlying asset available for use to the Group. If the lease contract contains several lease components, the Group allocates the consideration in the contact to each lease component on the basis of their relative stand-alone prices and accounts for them separately.

The Group's main leasing activities include the leases of service centres, ATM spaces and warehouses. A non-cancellable lease period is up to 10 years. Lease payments are fixed in most cases. The contacts don't generally carry extension or termination options for the lease term and do not impose any covenants.

Recognition of Right-of-use asset and Lease liability

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated dismantling costs, if any. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The Group applies the cost model to right-of-use assets, except for those assets that meet the definition of investment property, in which case the revaluation model is applied.

The lease liability is initially measured at the present value of the future lease payments excluding payments for VAT, discounted using the Group's incremental borrowing rate (IBR). The lease liability is subsequently measured at amortized cost using the IBR.

Recognition exemptions

The Group applies the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Modifications of lease contracts

If the lease contract is modified by either changing the scope of the lease, or the consideration for a lease that was not part of the original terms and conditions of the lease, the Group determines whether the modification results in:

- A separate lease; or
- A change in the accounting for the existing lease

The Group accounts for a lease modification as a separate lease when both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases commensurate with the stand-alone price for the increase in scope and any adjustments to that stand-alone price reflect the circumstances of the particular contract.

For the lease modifications that are not accounted as separate leases, the Group re-measures the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease; or
- making a corresponding adjustment to the right-of-use asset for all other lease modifications

The Group as a lessor

At the inception of the lease, the Group classifies each of its leases as either an operating lease or a finance lease.

Finance lease

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. All other leases are classified as operating leases. The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

3. Summary of significant accounting policies (continued)

Leases (Policy applicable as of 1 January 2019)

Operating lease

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as Net Other Income. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Lease accounting policy applicable before 1 January 2019 can be found in the previous year consolidated financial statements.

Impairment of financial assets

Overview of the ECL principles

The Group records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial assets'. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

The Group applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

In order to calculate ECL the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Staged approach to the determination of expected credit losses

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial asset's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its financial instruments into Stage 1, Stage 2,Stage 3 and POCI, as described below::

- Stage 1: The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity.
- Stage 2: The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the Financial Instrument is credit-impaired, it is then moved to Stage 3. The Group recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% for those Financial Instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial Instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the Financial Asset is recognised as POCI, it retains this status until derecognised.
Key judgements and estimates used under IFRS 9 are disclosed in Note 4.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Derecognition of Financial assets

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

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

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

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

De-recognition and modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms based on qualitative and quantitative criteria. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, except of cases when renegotiation of contractual terms happens due to financial difficulties of the borrower. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument the Group considers the following factors:

- Change in currency of the loan;
- Change in interest rate type;
- Introduction of an equity feature;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the terms are not substantially different or the renegotiation is due to the financial difficulties of the borrower, such renegotiation or modification does not result in de-recognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the Financial Asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Group sometimes makes concessions or modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne the assets are classified in Stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to Stage 2. Once the loan is transferred to Stage 2, the Group continues to reassess whether there has been a significant increase in credit risk, however, such assets remain in Stage 2 for a minimum 12-month probation period before being transferred to Stage 1.

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition of financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset is measured in accordance with applicable IFRSs.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the consolidated statement of cash flows.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which BOGG and its subsidiaries operate.

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

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

3. Summary of significant accounting policies (continued)

Taxation

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

Georgia and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. With regards to certain investment properties with repurchase option granted to previous owners fair value of the property at the reporting date is capped at repurchase price.

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

Property and equipment

Property and equipment, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centers	Up to 100
Furniture and fixtures	3-20
Computers and equipment	5-10
Motor vehicles	2-7

The assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to their respective group of property and equipment.

Leasehold improvements are depreciated over the shorter life of the related leased asset and the expected lease term.

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

3. Summary of significant accounting policies (continued)

Goodwill impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

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

Provisions

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

3. Summary of significant accounting policies (continued)

Share-based payment transactions

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

Equity-settled transactions

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

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

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Where a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a modification.

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

Equity

Share capital

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

3. Summary of significant accounting policies (continued)

Equity (continued)

Treasury shares

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

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Contingencies

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

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense are recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

For Financial Instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For Financial Instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. As a result of the amendments to International Accounting Standard 1: "Presentation of Financial Statements" (IAS 1) following IFRS 9, the Group presents interest revenue calculated using the EIR method separately in the income statement.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Group satisfies a performance obligation. Fee income can be divided into the following categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody, package services on bundled products and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (togeth er with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Customer loyalty program

Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty programmes when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Conversely, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At each reporting date the Group estimates the portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised in revenue when points are earned or expired.

Performance obligations satisfied at a point in time
Fees and commissions earned from providing transaction-type services such as settlement, brokerage, cash and currency conversion operations are recognized when the service has been completed, provided such fees and commissions are not subject to refund or another contingency beyond the control of the Group. Fees from currency conversion operations represent additional commission (other than currency dealing revenue recognized in net foreign currency gain) charged on currency conversion service provided to customers on cards used abroad.
Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and, thus should not be taken into account when making projections of future results.

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. BOGG's and the Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in the income statement.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2019, 31 December 2018 and 31 December 2017 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2019	3.7593	2.8677	3.2095	1.3639
31 December 2018	3.3955	2.6766	3.0701	1.2418
31 December 2017	3.5005	2.5922	3.1044	1.3083

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations

In these consolidated financial statements the Group has applied IFRS 16, Leases for the first time. The nature and the effect of these changes as a result of adoption of this new accounting standard are described below.
Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Group's consolidated financial statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 transition

The Group has adopted IFRS 16, Leases from the mandatory adoption date of 1 January 2019 which replaces IAS 17, Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Group has applied the new standard using a modified retrospective approach with no initial application effect on retained earnings at 1 January 2019. As a result, the Group did not restate comparative amounts for the year prior to first adoption. The standard was applied to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.

The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessor will continue to classify leases as either operating or finance leases using similar principles as under IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group as a lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, including payments attributable to the Value-Added-Tax (VAT), discounted using the Group's incremental borrowing rate as of 1 January 2019. During 2019 the Group revisited its initial approach and excluded VAT payments from IFRS 16 balances to align with the global adopted practice. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

Right-of-use assets were measured on transition at an amount equal to the lease liabilities, adjusted by the amount of any prepaid amounts recognized immediately before the date of initial application. As a result, the Group did not recognize any transition effect on its retained earnings on 1 January 2019.

The effect of transition to IFRS 16 on the Group's financial statements as at 1 January 2019 was as follows:

	Effect of transition to IFRS 16
Right of use assets	79,165
Prepayments reclassified to right of use assets	(12,249)
Lease liability	66,916

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The below table shows the reconciliation between the operating lease commitments disclosed by the Group as at 31 December 2018 and the Lease liabilities recognized under the new standard as at 1 January 2019.

Reconciliation of operating lease commitments as at 31 December 2018 to lease liabilities recognised as at 1 January 2019	
Lease liabilities recognised as at 1 January 2019	66,916
Effect of discounting (using the incremental borrowing rate as at 1 January 2019)	56,055
Recognition exemption for:	
- Short-term leases	729
- Leases of low-value assets	352
Other (VAT expense)	8,410
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**132,462**

No assets have met the definition of investment property. The movements in right-of-use assets during the year ended 31 December 2019 were as follows:

	Measured at cost
Cost	
1 January 2019	**79,165**
Additions	39,464
Disposals	(3,632)
Currency translation differences	42
31 December 2019	**115,039**
Accumulated depreciation	
1 January 2019	-
Depreciation charge	19,751
Disposals	(718)
Currency translation differences	16
31 December 2019	**19,049**
Net book value	
1 January 2019	**79,165**
31 December 2019	**95,990**

IFRIC 23 Interpretation 23 Uncertainty over Income Tax Treatment

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. When there is uncertainty over income tax treatments, this Interpretation addresses:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

4. Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, the Board of Directors and management use their judgement and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values (Note 28).

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties with a 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. Results of this valuation are presented in Note 11, while valuation inputs and techniques are presented in Note 28. The Group's properties are spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for financial assets

IFRS 9 requires management to make a number of judgements, assumptions and estimates that affect the allowance for ECL. Estimates and judgements are based on management's knowledge and historical experience. A summary of the key judgements made by management is set out below.

Definition of default, credit-impaired and cure (Note 27)

The Group's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced or there is other evidence that the payment obligations will not be fully met. The determination of whether a Financial Instrument is credit-impaired focuses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. A minimum period of six consecutive months' payment is applied as exit criteria to Financial Assets restructured due to credit risk other than corporate loan portfolio and debt instruments measured at FVOCI where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired Financial Instruments, exit criteria is determined as repayment of the entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in Stage 2 at least for the next 12 consecutive months. After 12 consecutive payments it is transferred to Stage 1 if its credit risk is not significantly higher than at origination date.

4. Significant accounting judgements and estimates (continued)

Significant Increase in Credit Risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgement. In assessing whether the credit risk has significantly increased the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators such as external market indicators of credit risk or general economic conditions which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at Financial Instrument level in order to track changes in credit risk since initial recognition date.

Measurement of expected credit losses

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD) and exposure at default (EAD) which are further explained below:

PD estimation: The Group estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for a minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical data period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolios other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information, and where practical, build on information from top rating agencies, Credit Bureau or internal credit rating systems. Since Stage 3 Financial Instruments are defaulted, the probability of default in this case is equal to 100%.

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 Financial Instrument, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI Financial Instruments, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EAD differently for products with the repayment schedules and those without repayment schedules. For Financial Instruments with repayment schedules the Group estimates forward-looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees the Group estimates the forward-looking EAD using the limit utilisation approach.

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected pay-outs from bankruptcy proceedings for unsecured claims and where applicable time to realisation of collateral and the seniority of claims. The Group segments its Financial Instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types). Based on this information, the Group estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each Financial Instrument.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Group. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis for all material exposures.

Forward-looking information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Group's allowance for credit losses, the Group uses the macroeconomic forecasts provided by National Bank of Georgia for Group companies operating in Georgia, while data used by Belarusky Narodny Bank ("BNB") is provided by a non-governmental research centre operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL assessment model include GDP growth, foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are updated on a semi-annual basis for Georgian companies and on a quarterly basis for BNB.

The determination of the probability weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a basecase (weight 0.50) and a downside (weight 0.25) scenario relevant for each respective portfolio. A weight is computed for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The Group considers these forecasts to represent its best estimate of the possible outcomes based on reliable available information.

Forward-looking variable assumptions

The most significant period-end assumptions used for ECL estimate as at 31 December 2019 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key Drivers	ECL Scenario	Assigned Weight	As at 31 December 2019			As at 31 December 2018			As at 1 January 2018		
			2020	2021	2022	2019	2020	2021	2018	2019	2020
GDP growth in %											
	Upside	25%	5.50%	6.00%	5.00%	6.00%	5.50%	5.00%	5.50%	6.00%	5.70%
	Base case	50%	4.50%	5.00%	5.00%	5.00%	5.00%	5.00%	4.50%	4.80%	5.00%
	Downside	25%	2.50%	3.50%	4.50%	2.00%	2.50%	3.50%	3.00%	2.00%	3.00%
GEL/USD exchange rate %											
	Upside	25%	5.00%	5.00%	0.00%	10.00%	5.00%	-5.00%	5.00%	7.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Downside	25%	-10.00%	-5.00%	5.00%	-15.00%	-10.00%	5.00%	-10.00%	-15.00%	-10.00%
CPI inflation rate in %											
	Upside	25%	4.50%	3.50%	3.00%	3.40%	3.20%	3.00%	2.50%	2.50%	2.70%
	Base case	50%	4.50%	2.50%	3.00%	2.90%	3.00%	3.00%	3.50%	3.00%	3.00%
	Downside	25%	7.00%	5.00%	3.00%	4.50%	4.00%	3.00%	4.50%	4.30%	3.80%

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Belarus

Key Drivers	ECL Scenario	Assigned Weight	As at 31 December 2019				As at 31 December 2018				As at 1 January 2018			
			2020Q1	2020Q2	2020Q3	2020Q4	2019Q1	2019Q2	2019Q3	2019Q4	2018Q1	2018Q2	2018Q3	2018Q4
GDP growth in %														
	Upside	25%	3.44%	2.94%	3.19%	3.65%	0.87%	1.13%	1.98%	2.82%	3.24%	3.38%	3.56%	3.11%
	Base case	50%	1.56%	0.84%	0.96%	1.16%	0.40%	0.30%	0.75%	1.41%	2.96%	2.61%	2.24%	1.58%
	Downside	25%	-0.31%	-1.26%	-1.27%	-1.32%	-0.07%	-0.53%	-0.47%	0.00%	2.67%	1.85%	1.02%	-0.14%
BYN/USD exchange rate %														
	Upside	25%	-5.12%	-5.40%	-4.66%	-3.30%	8.23%	6.94%	4.25%	2.55%	4.78%	4.97%	5.31%	5.56%
	Base case	50%	-0.60%	0.67%	2.69%	2.78%	10.11%	9.55%	7.61%	5.57%	5.45%	5.91%	6.39%	6.78%
	Downside	25%	3.92%	6.69%	10.04%	8.52%	12.61%	13.50%	12.83%	10.95%	6.12%	6.69%	7.15%	8.17%
CPI inflation rate in %														
	Upside	25%	1.49%	0.42%	-0.27%	0.52%	9.06%	5.70%	0.35%	5.59%	1.87%	4.22%	8.91%	4.74%
	Base case	50%	2.06%	0.99%	0.32%	1.63%	10.90%	7.22%	1.73%	6.80%	5.00%	8.05%	13.21%	9.77%
	Downside	25%	2.62%	1.55%	0.88%	2.74%	12.75%	8.72%	3.09%	7.99%	7.94%	11.06%	16.15%	13.39%

All other parameters held constant, increase in GDP growth and decrease in foreign exchange rate and inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation which does not have a significant impact on corporate ECL.

In 2019, the BYN appreciated by 2.6% as compared to US Dollar. As a result, the 2019 BYN/USD exchange rate assumptions used for ECL estimate as at 31 December 2018 have been significantly different as compared to actual dynamics. This resulted in a significant gap in y-o-y expectations for 2020, for each quarter, as presented in the table above.

The table below shows the sensitivity of the recognised ECL amounts to the forward looking assumptions used in the model. For these purposes, 100% weight is assigned to each macroeconomic scenario separately and respective ECL is recalculated.

Sensitivity of ECL to forward looking assumptions:

	As at 31 December 2019				
	Reported ECL	*Reported ECL coverage*	*ECL coverage by scenarios*		
			Upside	*Basecase*	*Downside*
Commercial loans	90,612	2.31%	2.29%	2.31%	2.34%
Residential mortgage loans	9,017	0.29%	0.29%	0.29%	0.29%
Micro and SME loans	44,545	1.67%	1.63%	1.67%	1.73%
Consumer loans	72,707	3.49%	3.44%	3.47%	3.55%
Gold – pawn loans	253	0.30%	0.30%	0.30%	0.30%

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on asset type, overdue buckets, collateralisation level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products the expected life of Financial Instruments is determined either with reference to the next renewal date or with reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write-offs

The Group writes-off financial assets when there is no reasonable expectation of recovery which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate. For mortgages and other loans secured by real estate the number of overdue days after which the balances are considered to be irrecoverable and are to be written off has been increased from 365 to 1460 days. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

(Thousands of Georgian Lari)

4. Significant accounting judgements and estimates (continued)

Backtesting of ECL calculation model

In order to monitor the quality and reliability of the Group's ECL calculation model, the Group performs backtesting and benchmarking procedures, whereby model outcomes are compared with actual results, based on internal experience as well as externally observed results. For PD, the Group uses statistical modelling to derive a predicted distribution of the number of defaults. The observed number of defaults is then compared with this distribution, allowing the Group to derive a statistical level of confidence in the model. For LGD, the backtesting compares observed losses to predicted LGDs. If any statistically significant deviations or shortcomings in parameterizations are observed, the relevant models are redefined and recalibrated. Any changes in the model as a result of backtesting procedures are accounted as changes in accounting estimates with prospective application.

5. Reclassification

Change in the presentation of financial statements

As a result of the Demerger, the Group has updated certain line items' titles within these consolidated financial statements of the Group as at and for the year ended 31 December 2019, in order to be in compliance with the current common practice evidenced throughout the financial institutions.

The Group further has changed presentation of its reportable segments. In line with IFRS 8 requirements, the change was applied retrospectively for comparable periods. The change primarily related to the presentation. The Group believes that the revised composition and presentation of its reportable segments provides more relevant information to the financial statement users as it better aligns financial reporting with management's views of operations within the Group and decision-making about resource allocations.

Below are presented financial statements' line items of the Group affected by the change:

Consolidated statement of financial position as at 31 December 2018	*As previously reported*	*Reclassification*	*As reclassified*
Loans to customers	9,120,881	(9,120,881)	-
Finance lease receivables	108,439	(108,439)	-
Loans to customers and finance lease receivables	-	9,229,320	9,229,320
Current income tax assets	19,234	(19,234)	-
Deferred income tax assets	123	(123)	-
Income tax assets	-	19,357	19,357
Investments in associates	12,371	(12,371)	-
Other assets	134,573	(16,118)	118,455
Accounts receivable and other loans	-	19,702	19,702
Inventories	-	8,787	8,787
Amounts due to customers	8,196,551	(8,196,551)	-
Client deposits and notes	-	8,196,551	8,196,551
Amounts due to credit institutions and other borrowings	2,749,348	(2,749,348)	-
Amounts owed to credit institutions	-	2,749,348	2,749,348
Current income tax liabilities	679	(679)	-
Deferred income tax liabilities	28,154	(28,154)	-
Income tax liabilities	-	28,833	28,833
Provisions	4,582	(4,582)	-
Other liabilities	102,213	(102,213)	-
Accruals and deferred income	-	44,730	44,730
Other liabilities	-	62,065	62,065

(Thousands of Georgian Lari)

5. Reclassification (continued)

Change in the presentation of financial statements (continued)

Consolidated income statement for the year ended 31 December 2018	*As previously reported*	*Reclassification*	*As reclassified*
Interest income	1,307,378	(1,307,378)	-
Loans to customers	*1,124,611*	*(1,124,611)*	-
Investment securities	*136,115*	*(136,115)*	-
Amounts due from credit institutions	*28,705*	*(28,705)*	-
Finance lease receivables	*17,947*	*(17,947)*	-
Interest income calculated using EIR method	-	*1,289,431*	*1,289,431*
Other interest income	-	*17,947*	*17,947*
Interest income	-	1,307,378	1,307,378
Interest expense	(569,879)	569,879	-
Amounts due to customers	*(254,680)*	*254,680*	-
Amounts due to credit institutions and other borrowings	*(204,437)*	*204,437*	-
Debt securities issued	*(110,762)*	*110,762*	-
Interest expense	-	*(569,879)*	*(569,879)*
Net gain from foreign currencies:	*125,660*	*(125,660)*	-
– dealing	*92,651*	*(92,651)*	-
– translation differences	*33,009*	*(33,009)*	-
Net foreign currency gain	-	125,660	125,660
Net real estate gain	*5,138*	*(5,138)*	-
Net losses on derecognition of financial assets measured at fair value through other comprehensive income	*(1,023)*	*1,023*	-
Net gains on financial assets at fair value through profit or loss	*(878)*	*878*	-
Net gain (loss) from revaluation of investment properties	*190*	*(190)*	-
Net other operating income (expense) (except for profit from associates)	*1,559*	*(1,559)*	-
Net other (expense) income	-	4,986	4,986
Revenue *(except for profit from associates)*	991,714	(991,714)	-
Profit from associates	*1,339*	*(1,339)*	-
Operating income	-	991,714	991,714
Profit from associates	-	1,339	1,339
General and administrative expenses	(108,147)	108,147	-
Administrative expenses	-	(108,147)	(108,147)

Consolidated cash flow statement for the year ended 31 December 2018	*As previously reported*	*Reclassification*	*As reclassified*
Net cash inflow from real estate	5,114	(5,114)	-
Other income received (expense paid)	18,617	(18,617)	-
Other income received (expense paid)	-	23,731	23,731
Loans to customers	(1,707,438)	1,707,438	-
Finance lease receivables	(36,727)	36,727	-
Loans to customers and finance lease receivables	-	(1,744,165)	(1,744,165)
Amounts due to credit institutions and other borrowings	(469,057)	469,057	-
Amounts due to credit institutions	-	(469,057)	(469,057)
Amounts due to customers	902,776	(902,776)	-
Client deposits and notes	-	902,776	902,776

(Thousands of Georgian Lari)

5. Reclassification (continued)

Change in the presentation of financial statements (continued)

Consolidated statement of financial position as at 31 December 2017	*As previously reported*	*Reclassification*	*As reclassified*
Loans to customers	7,445,578	(7,445,578)	-
Finance lease receivables	65,306	(65,306)	-
Loans to customers and finance lease receivables	-	7,510,884	7,510,884
Current income tax assets	696	(696)	-
Deferred income tax assets	130	(130)	-
Income tax assets	-	826	826
Investments in associates	11,031	(11,031)	-
Other assets	117,857	(7,100)	110,757
Accounts receivable and other loans	-	1,803	1,803
Inventories	-	16,328	16,328
Amounts due to customers	7,123,866	(7,123,866)	-
Client deposits and notes	-	7,123,866	7,123,866
Amounts due to credit institutions and other borrowings	3,162,209	(3,162,209)	-
Amounts owed to credit institutions	-	3,162,209	3,162,209
Current income tax liabilities	8,753	(8,753)	-
Deferred income tax liabilities	11,342	(11,342)	-
Income tax liabilities	-	20,095	20,095
Provisions	2,815	(2,815)	-
Other liabilities	80,157	(80,157)	-
Accruals and deferred income	-	37,658	37,658
Other liabilities	-	45,314	45,314

(Thousands of Georgian Lari)

5. Reclassification (continued)

Change in the presentation of financial statements (continued)

Consolidated income statement for year ended 31 December 2017	***As previously reported***	***Reclassification***	***As reclassified***
Interest income	1,105,385	(1,105,385)	-
Loans to customers	*965,614*	*(965,614)*	-
Investment securities	*113,276*	*(113,276)*	-
Amounts due from credit institutions	*17,031*	*(17,031)*	-
Finance lease receivables	*9,464*	*(9,464)*	-
Interest income calculated using EIR method	-	*1,095,921*	*1,095,921*
Other interest income	-	*9,464*	*9,464*
Interest income	-	1,105,385	1,105,385
Interest expense	(460,838)	460,838	-
Amounts due to customers	*(221,410)*	*221,410*	-
Amounts due to credit institutions and other borrowings	*(195,594)*	*195,594*	-
Debt securities issued	*(43,834)*	*43,834*	-
Interest expense	-	*(460,838)*	*(460,838)*
Net gain from foreign currencies:	*85,740*	*(85,740)*	-
– dealing	*66,502*	*(66,502)*	-
– translation differences	*19,238*	*(19,238)*	-
Net foreign currency gain	-	85,740	85,740
Net real estate gain	*5,679*	*(5,679)*	-
Net gain from investment securities available-for-sale	*2,060*	*(2,060)*	-
Net gain (loss) from other derivative financial instruments	*1,478*	*(1,478)*	-
Net gain (loss) from revaluation of investment properties	*7,336*	*(7,336)*	-
Net other operating income (expense) (except for profit from associates)	*(2,367)*	*2,367*	-
Net other (expense) income	-	14,186	14,186
Revenue *(except for profit from associates)*	860,743	(860,743)	-
Profit from associates	*1,311*	*(1,311)*	-
Operating income	-	860,743	860,743
Profit from associates	-	1,311	1,311
General and administrative expenses	(95,007)	95,007	-
Administrative expenses	-	(95,007)	(95,007)

Consolidated cash flow statement for the year ended 31 December 2017	***As previously reported***	***Reclassification***	***As reclassified***
Net cash inflow from real estate	5,336	(5,336)	-
Other income received (expense paid)	(16,620)	16,620	-
Other income received (expense paid)	-	(11,284)	(11,284)
Loans to customers	(1,456,372)	1,456,372	-
Finance lease receivables	(7,577)	7,577	-
Loans to customers and finance lease receivables	-	(1,463,949)	(1,463,949)
Amounts due to credit institutions and other borrowings	(271,170)	271,170	-
Amounts due to credit institutions	-	(271,170)	(271,170)
Amounts due to customers	1,436,334	(1,436,334)	-
Client deposits and notes	-	1,436,334	1,436,334

6. Segment information

The Group disaggregated revenue from contracts with customers by products and services for each of the segments, as the Group believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In 2019 the Group changed the composition of its reportable segments and applied the change retrospectively for comparable periods. For details refer to Note 5.

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

RB - Retail Banking (excluding Retail Banking of BNB) - principally provides consumer loans, mortgage loans, overdrafts, credit cards and other credit facilities, funds transfers and settlement services, and handling of customers' deposits for both individuals and legal entities, The Retail Banking business targets the emerging retail, mass retail and mass affluent segments, together with small and medium enterprises and micro businesses;

CIB - Corporate Investment Banking - comprises Corporate Banking and Investment Management operations in Georgia. Corporate Banking principally provides loans and other credit facilities, funds transfers and settlement services, trade finance services, documentary operations support and handles saving and term deposits for corporate and institutional customers. The Investment Management business principally provides private banking services to high net worth clients;

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Other BB - Comprising of holding companies: providing compliance, governance services for the Group's operating businesses and several small corporate and social responsibility companies.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated income statement.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's operating income in 2019, 2018 or 2017.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2019:

	Retail banking	*Corporate investment banking*	*BNB*	*Other*	*Eliminations*	*Group Total*
Net interest income	545,605	210,359	27,586	-	23	783,573
Net fee and commission income	113,113	32,000	7,169	-	-	152,282
Net foreign currency gain	49,901	48,001	20,688	-	-	118,590
Net other (expense) income	5,937	11,587	463	-	(259)	17,728
Operating income	**714,556**	**301,947**	**55,906**	**-**	**(236)**	**1,072,173**
Operating expenses	(275,590)	(90,217)	(32,445)	(559)	236	(398,575)
Profit from associates	789	-	-	-	-	789
Operating income before cost of risk	**439,755**	**211,730**	**23,461**	**(559)**	**-**	**674,387**
Cost of risk	(89,824)	(7,936)	(2,692)	-	-	(100,452)
Net operating income before non-recurring items	**349,931**	**203,794**	**20,769**	**(559)**	**-**	**573,935**
Net non-recurring expense/loss	(3,110)	(1,372)	(109)	-	-	(4,591)
Profit before income tax	**346,821**	**202,422**	**20,660**	**(559)**	**-**	**569,344**
Income tax expense	(34,025)	(19,028)	(3,404)	-	-	(56,457)
Profit for the period	**312,796**	**183,394**	**17,256**	**(559)**	**-**	**512,887**
Assets and liabilities						
Total assets	11,254,762	6,136,536	943,070	1,280	(12,425)	18,323,223
Total liabilities	10,115,832	5,308,522	833,874	23	(12,425)	16,245,826
Other segment information						
Property and equipment	69,472	9,829	1,150	10	-	80,461
Intangible assets	27,947	2,744	2,083	-	-	32,774
Capital expenditure	**97,419**	**12,573**	**3,233**	**10**	**-**	**113,235**
Depreciation & amortisation	(61,493)	(8,239)	(3,543)	-	-	(73,275)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2018:

	Retail banking	*Corporate investment banking*	*BNB*	*Other*	*Eliminations*	*Group Total*
Net interest income	547,524	158,198	25,794	10	18	731,544
Net fee and commission income	98,497	23,222	7,805	-	-	129,524
Net foreign currency gain (loss)	55,374	53,686	16,605	(5)	-	125,660
Net other income (expense)	199	4,182	795	5	(195)	4,986
Operating income	**701,594**	**239,288**	**50,999**	**10**	**(177)**	**991,714**
Operating expenses	(251,811)	(75,396)	(29,252)	(259)	177	(356,541)
Profit from associates	1,339	-	-	-	-	1,339
Operating income before cost of risk	**451,122**	**163,892**	**21,747**	**(249)**	**-**	**636,512**
Cost of risk	(130,742)	(26,527)	(3,070)	-	-	(160,339)
Net operating income before non-recurring items	**320,380**	**137,365**	**18,677**	**(249)**	**-**	**476,173**
Net non-recurring expense/loss	(50,339)	(25,011)	(716)	-	-	(76,066)
Profit (loss) before income tax expense	**270,041**	**112,354**	**17,961**	**(249)**	**-**	**400,107**
Income tax expense	(36,735)	(16,298)	(3,545)	(1)	-	(56,579)
Profit (loss) for the period	**233,306**	**96,056**	**14,416**	**(250)**	**-**	**343,528**
Assets and liabilities						
Total assets	9,490,405	4,362,272	680,550	1,874	(11,514)	14,523,587
Total liabilities	8,410,833	3,797,762	595,287	191	(11,514)	12,792,559
Other segment information						
Property and equipment	48,160	6,141	1,841	48	-	56,190
Intangible assets	36,223	3,000	1,343	67	-	40,633
Capital expenditure	**84,383**	**9,141**	**3,184**	**115**	**-**	**96,823**
Depreciation & amortisation	(36,216)	(4,834)	(1,363)	-	-	(42,413)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	Retail banking	*Corporate investment banking*	*BNB*	*Other*	*Eliminations*	*Group Total*
Net interest income	480,241	134,866	29,397	9	34	644,547
Net fee and commission income	83,418	23,516	9,336	-	-	116,270
Net foreign currency gain (loss)	27,940	46,948	10,852	-	-	85,740
Net other income (expense)	3,881	8,726	1,774	-	(195)	14,186
Operating income	**595,480**	**214,056**	**51,359**	**9**	**(161)**	**860,743**
Operating expenses	(224,892)	(71,007)	(27,063)	(568)	161	(323,369)
Profit from associates	1,311	-	-	-	-	1,311
Operating income before cost of risk	**371,899**	**143,049**	**24,296**	**(559)**	**-**	**538,685**
Cost of risk	(110,562)	(48,694)	(9,093)	-	-	(168,349)
Net operating income before non-recurring items	**261,337**	**94,355**	**15,203**	**(559)**	**-**	**370,336**
Net non-recurring expense/loss	(2,584)	(945)	(60)	-	-	(3,589)
Profit (loss) before income tax expense	**258,753**	**93,410**	**15,143**	**(559)**	**-**	**366,747**
Income tax expense	(18,870)	(6,713)	(2,257)	-	-	(27,840)
Profit (loss) for the period	**239,883**	**86,697**	**12,886**	**(559)**	**-**	**338,907**
Assets and liabilities						
Total assets	7,707,139	4,303,895	624,835	1,953	(17,106)	12,620,716
Total liabilities	6,877,763	3,732,620	545,315	205	(17,106)	11,138,797
Other segment information						
Property and equipment	41,915	6,099	1,464	-	-	49,478
Intangible assets	18,819	2,750	999	-	-	22,568
Capital expenditure	**60,734**	**8,849**	**2,463**	**-**	**-**	**72,046**
Depreciation & amortisation	(32,407)	(4,909)	(1,098)	-	-	(38,414)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2019	2018	2017
Cash on hand	674,130	513,222	464,877
Current accounts with central banks, excluding obligatory reserves	405,560	298,788	91,692
Current accounts with credit institutions	458,529	236,653	181,131
Time deposits with credit institutions with maturities of up to 90 days	621,120	172,003	763,954
Cash and cash equivalents	**2,159,339**	**1,220,666**	**1,501,654**
Less – Allowance for expected credit loss	(134)	(142)	-
Cash and cash equivalents	**2,159,205**	**1,220,524**	**1,501,654**

As at 31 December 2019, GEL 841,866 (2018: GEL 315,081, 2017: GEL 929,676) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.20% interest per annum on these deposits (2018: up to 3.00%, 2017: up to 2.00%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. Amounts Due from Credit Institutions

	2019	2018	2017
Obligatory reserves with central banks	1,577,911	1,244,885	1,000,565
Inter-bank loan receivables	30,414	17,586	6,551
Deposits pledged as security for open commitments	5,691	-	-
Time deposits with maturities of more than 90 days	5	43,459	209,227
Amounts due from credit institutions	**1,614,021**	**1,305,930**	**1,216,343**
Less – Allowance for expected credit loss	(347)	(739)	-
Amounts due from credit institutions	**1,613,674**	**1,305,191**	**1,216,343**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposits (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by regulation. The Group earned up to 1.25% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2019 (2018: 1.00%, 2017: 1.00%).

As at 31 December 2019, nil inter-bank loan receivables include (2018: GEL 17,586, 2017: GEL 6,551) deposits placed with non-OECD banks.

9. Investment Securities

	2019	2018	2017
Investment securities measured at FVOCI - debt instruments	1,758,235	1,932,087	n/a
Investment securities designated as at FVOCI - equity investments	2,788	466	n/a
Available for sale investment securities	n/a	n/a	1,613,759
Investment securities	**1,761,023**	**1,932,553**	**1,613,759**

(Thousands of Georgian Lari)

9. Investment Securities (continued)

	2019	2018	2017
Georgian ministry of Finance treasury bonds*	647,886	899,024	n/a
Georgian ministry of Finance treasury bills**	120,519	100,111	n/a
Foreign ministry of Finance treasury bonds	66,961	7,762	n/a
Certificates of deposit of central banks	8,912	63,394	n/a
Other debt instruments***	913,957	861,796	n/a
Investment securities measured at FVOCI - debt instruments	**1,758,235**	**1,932,087**	**n/a**

	2019	2018	2017
Georgian ministry of Finance treasury bonds*	n/a	n/a	847,839
Georgian ministry of Finance treasury bills**	n/a	n/a	77,460
Certificates of deposit of central banks	n/a	n/a	73,415
Other debt instruments***	n/a	n/a	614,844
Corporate shares	n/a	n/a	201
Available for sale investment securities	**n/a**	**n/a**	**1,613,759**

** GEL 576,017 was pledged for short-term loans from the NBG (2018: GEL 573,517, 2017: GEL 448,558).*
*** GEL 74,564 was pledged for short-term loans from the NBG (2018: Nil, 2017: Nil).*
**** GEL 684,546 was pledged for short-term loans from the NBG (2018: GEL 674,616, 2017: GEL 475,735).*

Other debt instruments as at 31 December 2019 mainly comprises bonds issued by European Bank for Reconstruction and Development of GEL 309,351 (2018: GEL 249,659, 2017: GEL 268,057), GEL denominated bonds issued by The Netherlands Development Finance Company of GEL 156,494 (2018: GEL 163,454, 2017: Nil), GEL denominated bonds issued by Black Sea Trade and Development Bank of GEL 150,865 (2018: GEL 136,504, 2017: GEL 60,625), GEL denominated bonds issued by International Finance Corporation of GEL 208,948 (2018: GEL 110,545, 2017: GEL 110,862), GEL denominated bonds issued by Asian Development Bank of GEL 58,863 (2018: GEL 65,145, 2017: GEL 65,245), and Dollar denominated bonds issued by an Internationally recognised investment bank of Nil (2018: Nil, 2017: GEL 26,666).

During 2019, NBG monetary policy rate, which is one of the key variables while assessing the fair value for financial assets, has increased by 200 bps to 9.0% as at 31 December 2019, as compared to 31 December 2018. This has resulted in a significant movement in net change in fair value on investments in debt instruments measured at FVOCI within other comprehensive income for the year ended 31 December 2019.

10. Loans to customers and finance lease receivables

	2019	2018	2017
Commercial loans	3,929,443	2,794,818	2,412,513
Residential mortgage loans	3,066,683	2,549,453	1,712,515
Micro and SME loans	2,660,220	2,129,215	1,776,044
Consumer loans	2,085,108	1,876,888	1,751,106
Gold – pawn loans	85,540	80,771	67,940
Loans to customers at amortised cost, gross	**11,826,994**	**9,431,145**	**7,720,118**
Less – Allowance for expected credit loss	(217,134)	(310,264)	(274,540)
Loans to customers at amortised cost, net	**11,609,860**	**9,120,881**	**7,445,578**
Finance lease receivables, gross	**159,191**	**110,087**	**67,686**
Less – Allowance for expected credit loss	(2,297)	(1,648)	(2,380)
Finance lease receivables, net	**156,894**	**108,439**	**65,306**
Total loans to customers and finance lease receivables	**11,766,754**	**9,229,320**	**7,510,884**

As at 31 December 2019, loans to customers carried at GEL 577,246 (2018: GEL 357,342, 2017: GEL 333,944) were pledged for short-term loans from the NBG.

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss

Movements of the gross loans and respective allowance for expected credit loss / impairment of loans to customers by class are provided in the table below, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year. All new financial assets are originated either in Stage 1 or POCI category. Utilization of additional tranches on existing financial assets are reflected in Stage 2 or Stage 3 if the credit risk of the borrower has deteriorated since initiation. Currency translation differences relate to loans issued by the subsidiaries of the Group whose functional currency is different from the presentation currency of the Group, while foreign exchange movement relates to foreign currency denominated loans issued by the Group. Net other changes in gross loan balances includes the effects of changes in accrued interest. Net other measurement of ECL includes the effect of changes in ECL due to changes in PDs and other inputs as well as the effect from ECL attributable to changes in accrued interest.

Commercial loans at amortised cost, gross:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**
New financial asset originated or purchased	4,159,399	163,280	6,632	-	4,329,311
Transfer to Stage 1	571,826	(571,826)	-	-	-
Transfer to Stage 2	(858,838)	883,222	(24,384)	-	-
Transfer to Stage 3	(10,482)	(47,956)	58,438	-	-
Assets derecognized due to pass-through arrangement	(60,246)	(17,550)	-	-	(77,796)
Assets repaid	(2,926,575)	(437,483)	(60,747)	(257)	(3,425,062)
Resegmentation	190,519	3,134	2,608	-	196,261
Impact of modifications	-	4	(233)	-	(229)
Write-offs	-	-	(97,392)	-	(97,392)
Recoveries of amounts previously written off	-	-	9,980	-	9,980
Unwind of discount	-	-	2,635	(143)	2,492
Currency translation differences	21,608	2,433	1,546	-	25,587
Foreign exchange movement	80,611	27,417	12,033	483	120,544
Net other changes	25,189	16,990	8,209	541	50,929
Balance at 31 December 2019	**3,410,544**	**349,494**	**161,744**	**7,661**	**3,929,443**
Individually assessed	-	-	157,060	-	157,060
Collectively assessed	3,410,544	349,494	4,684	7,661	3,772,383
Balance at 31 December 2019	**3,410,544**	**349,494**	**161,744**	**7,661**	**3,929,443**

Commercial loans at amortised cost, ECL:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**4,541**	**5,552**	**156,383**	**524**	**167,000**
New financial asset originated or purchased	12,672	282	887	-	13,841
Transfer to Stage 1	1,238	(1,238)	-	-	-
Transfer to Stage 2	(2,980)	5,450	(2,470)	-	-
Transfer to Stage 3	(3,491)	(1,691)	5,182	-	-
Impact on ECL of exposures transferred between stages during the year	374	322	9,643	-	10,339
Assets derecognized due to pass-through arrangement	(439)	-	-	-	(439)
Assets repaid	(3,519)	(4,576)	(28,000)	-	(36,095)
Resegmentation	274	6	-	-	280
Impact of modifications	-	-	6	-	6
Write-offs	-	-	(97,392)	-	(97,392)
Recoveries of amounts previously written off	-	-	9,980	-	9,980
Unwind of discount	-	-	2,635	(143)	2,492
Currency translation differences	209	188	509	-	906
Foreign exchange movement	(65)	18	10,358	49	10,360
Net other measurement of ECL	88	(899)	10,274	(129)	9,334
Balance at 31 December 2019	**8,902**	**3,414**	**77,995**	**301**	**90,612**
Individually assessed	-	-	77,632	-	77,632
Collectively assessed	8,902	3,414	363	301	12,980
Balance at 31 December 2019	**8,902**	**3,414**	**77,995**	**301**	**90,612**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	As at 31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
New financial asset originated or purchased	2,053,009	9,012	2,534	9,421	2,073,976
Transfer to Stage 1	225,501	(163,946)	(61,555)	-	-
Transfer to Stage 2	(321,349)	359,360	(38,011)	-	-
Transfer to Stage 3	(219,354)	(117,177)	336,531	-	-
Assets repaid	(1,560,409)	(77,936)	(199,564)	(4,323)	(1,842,232)
Resegmentation	(100)	(272)	138	-	(234)
Impact of modifications	-	-	(3,270)	(62)	(3,332)
Write-offs	-	-	(86,364)	-	(86,364)
Recoveries of amounts previously written off	-	-	18,121	-	18,121
Unwind of discount	-	-	3,859	15	3,874
Currency translation differences	6,578	29	32	-	6,639
Foreign exchange movement	16,513	1,232	1,566	86	19,397
Net other changes	6,326	(1,290)	13,206	133	18,375
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**
Individually assessed	-	-	2,023	-	2,023
Collectively assessed	1,856,795	110,158	106,391	9,741	2,083,085
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

Consumer loans at amortised cost, ECL:	As at 31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2019	**19,654**	**9,355**	**62,143**	**389**	**91,541**
New financial asset originated or purchased	64,876	1,384	1,337	42	67,639
Transfer to Stage 1	33,555	(9,958)	(23,597)	-	-
Transfer to Stage 2	(9,492)	27,018	(17,526)	-	-
Transfer to Stage 3	(55,580)	(9,651)	65,231	-	-
Impact on ECL of exposures transferred between stages during the year	(25,472)	(13,980)	38,527	-	(925)
Assets repaid	(11,730)	(6,557)	(64,332)	(311)	(82,930)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	(895)	(5)	(900)
Write-offs	-	-	(86,364)	-	(86,364)
Recoveries of amounts previously written off	-	-	18,121	-	18,121
Unwind of discount	-	-	3,859	15	3,874
Currency translation differences	17	10	(358)	-	(331)
Foreign exchange movement	53	22	242	17	334
Net other measurement of ECL	942	8,702	52,937	67	62,648
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**
Individually assessed	-	-	248	-	248
Collectively assessed	16,823	6,345	49,077	214	72,459
Balance at 31 December 2019	**16,823**	**6,345**	**49,325**	**214**	**72,707**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
New financial asset originated or purchased	2,452,219	5,862	1,775	597	2,460,453
Transfer to Stage 1	133,332	(121,808)	(11,524)	-	-
Transfer to Stage 2	(256,554)	267,701	(11,147)	-	-
Transfer to Stage 3	(35,775)	(70,824)	106,599	-	-
Assets repaid	(1,669,000)	(54,135)	(75,885)	(1,715)	(1,800,735)
Resegmentation	(180,881)	(3,134)	(2,605)	-	(186,620)
Impact of modifications	-	(26)	(3,985)	(27)	(4,038)
Write-offs	-	-	(36,746)	-	(36,746)
Recoveries of amounts previously written off	-	-	6,865	-	6,865
Unwind of discount	-	-	1,309	32	1,341
Currency translation differences	9,034	2,026	940	-	12,000
Foreign exchange movement	52,239	1,547	4,634	190	58,610
Net other changes	8,288	610	10,540	437	19,875
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**
Individually assessed	-	-	11,284	-	11,284
Collectively assessed	2,426,866	113,130	107,191	1,749	2,648,936
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

Micro and SME loans loans at amortised cost, ECL:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**9,439**	**5,453**	**29,726**	**70**	**44,688**
New financial asset originated or purchased	14,972	616	776	-	16,364
Transfer to Stage 1	7,227	(4,937)	(2,290)	-	-
Transfer to Stage 2	(4,437)	8,484	(4,047)	-	-
Transfer to Stage 3	(2,289)	(5,268)	7,557	-	-
Impact on ECL of exposures transferred between stages during the year	(3,765)	(2,214)	(690)	-	(6,669)
Assets repaid	(9,711)	(2,034)	(15,660)	(358)	(27,763)
Resegmentation	(274)	(6)	-	-	(280)
Impact of modifications	-	-	(1,022)	(1)	(1,023)
Write-offs	-	-	(36,746)	-	(36,746)
Recoveries of amounts previously written off	-	-	6,865	-	6,865
Unwind of discount	-	-	1,309	32	1,341
Currency translation differences	186	293	188	-	667
Foreign exchange movement	12	(27)	462	55	502
Net other measurement of ECL	1,530	5,443	38,548	1,078	46,599
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**
Individually assessed	-	-	3,894	-	3,894
Collectively assessed	12,890	5,803	21,082	876	40,651
Balance at 31 December 2019	**12,890**	**5,803**	**24,976**	**876**	**44,545**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
New financial asset originated or purchased	1,425,274	472	7	23,136	1,448,889
Transfer to Stage 1	249,103	(216,701)	(32,402)	-	-
Transfer to Stage 2	(350,322)	378,751	(28,429)	-	-
Transfer to Stage 3	(110,097)	(62,530)	172,627	-	-
Assets repaid	(909,258)	(34,746)	(97,063)	(15,457)	(1,056,524)
Resegmentation	(9,538)	272	(4)	-	(9,270)
Impact of modifications	-	-	(1,372)	(389)	(1,761)
Write-offs	-	-	(4,646)	-	(4,646)
Recoveries of amounts previously written off	-	-	557	-	557
Unwind of discount	-	-	27	76	103
Currency translation differences	221	-	-	-	221
Foreign exchange movement	101,201	6,139	5,236	1,189	113,765
Net other changes	17,168	1,572	6,626	530	25,896
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**
Individually assessed	-	-	1,374	-	1,374
Collectively assessed	2,764,959	160,038	108,039	32,273	3,065,309
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

Residential mortgage loans at amortised cost, ECL:	*As at 31 December 2019*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**238**	**31**	**5,383**	**1,089**	**6,741**
New financial asset originated or purchased	1,925	-	1	320	2,246
Transfer to Stage 1	598	(254)	(344)	-	-
Transfer to Stage 2	(137)	795	(658)	-	-
Transfer to Stage 3	(1,706)	(60)	1,766	-	-
Impact on ECL of exposures transferred between stages during the year	(440)	(528)	2,005	-	1,037
Assets repaid	(157)	(37)	(3,294)	(1,005)	(4,493)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	(43)	(1)	(44)
Write-offs	-	-	(4,646)	-	(4,646)
Recoveries of amounts previously written off	-	-	557	-	557
Unwind of discount	-	-	27	76	103
Currency translation differences	2	-	-	-	2
Foreign exchange movement	15	3	363	88	469
Net other measurement of ECL	123	210	5,471	1,241	7,045
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**
Individually assessed	-	-	-	-	-
Collectively assessed	461	160	6,588	1,808	9,017
Balance at 31 December 2019	**461**	**160**	**6,588**	**1,808**	**9,017**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**75,483**	**541**	**4,747**	**-**	**80,771**
New financial asset originated or purchased	106,339	-	154	-	106,493
Transfer to Stage 1	5,671	(1,307)	(4,364)	-	-
Transfer to Stage 2	(2,414)	3,825	(1,411)	-	-
Transfer to Stage 3	(10,459)	(1,333)	11,792	-	-
Assets repaid	(93,933)	(604)	(6,750)	-	(101,287)
Resegmentation	-	-	(137)	-	(137)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(292)	-	(292)
Recoveries of amounts previously written off	-	-	1	-	1
Unwind of discount	-	-	(2)	-	(2)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	175	2	28	-	205
Net other changes	(67)	(10)	(135)	-	(212)
Balance at 31 December 2019	**80,795**	**1,114**	**3,631**	**-**	**85,540**
Individually assessed	-	-	-	-	-
Collectively assessed	80,795	1,114	3,631	-	85,540
Balance at 31 December 2019	**80,795**	**1,114**	**3,631**	**-**	**85,540**

Gold – pawn loans at amortised cost, ECL:	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**11**	**-**	**283**	**-**	**294**
New financial asset originated or purchased	214	-	-	-	214
Transfer to Stage 1	36	-	(36)	-	-
Transfer to Stage 2	-	61	(61)	-	-
Transfer to Stage 3	(215)	-	215	-	-
Impact on ECL of exposures transferred between stages during the year	(36)	(61)	218	-	121
Assets repaid	(7)	-	(295)	-	(302)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(292)	-	(292)
Recoveries of amounts previously written off	-	-	1	-	1
Unwind of discount	-	-	(2)	-	(2)
Currency translation differences	-	-	-	-	-
Foreign exchange movement	-	-	2	-	2
Net other measurement of ECL	5	1	211	-	217
Balance at 31 December 2019	**8**	**1**	**244**	**-**	**253**
Individually assessed	-	-	-	-	-
Collectively assessed	8	1	244	-	253
Balance at 31 December 2019	**8**	**1**	**244**	**-**	**253**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Commercial loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,745,670**	**362,673**	**292,913**	**26,847**	**2,428,103**
New financial asset originated or purchased	2,718,737	88,529	9,875	-	2,817,141
Transfer to Stage 1	353,609	(353,487)	(122)	-	-
Transfer to Stage 2	(490,844)	540,968	(50,124)	-	-
Transfer to Stage 3	(34,031)	(43,065)	77,096	-	-
Assets derecognized (excluding write-offs)	(106,070)	(847)	-	-	(106,917)
Assets repaid	(2,091,118)	(266,330)	(71,492)	(13,664)	(2,442,604)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(44,675)	-	(44,675)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	(11,660)	(1,553)	(499)	-	(13,712)
Net other changes	133,240	941	23,096	(5,995)	151,282
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**
Individually assessed	-	-	240,708	988	241,696
Collectively assessed	2,217,533	327,829	1,711	6,049	2,553,122
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**

Commercial loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**4,757**	**5,305**	**167,520**	**5,506**	**183,088**
New financial asset originated or purchased	7,631	43	277	-	7,951
Transfer to Stage 1	1,338	(1,338)	-	-	-
Transfer to Stage 2	(1,349)	1,693	(344)	-	-
Transfer to Stage 3	(1,472)	(647)	2,119	-	-
Impact on ECL of exposures transferred between stages during the year	(495)	884	2,938	-	3,327
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(2,836)	(2,838)	(14,259)	(413)	(20,346)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(44,675)	-	(44,675)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	499	246	(122)	-	623
Net other measurement of ECL	(3,532)	2,204	36,578	(4,418)	30,832
Balance at 31 December 2018	**4,541**	**5,552**	**156,383**	**524**	**167,000**
Individually assessed	-	-	155,946	495	156,441
Collectively assessed	4,541	5,552	437	29	10,559
Balance at 31 December 2018	**4,541**	**5,552**	**156,383**	**524**	**167,000**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Consumer loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,529,130**	**147,105**	**75,918**	**88**	**1,752,241**
New financial asset originated or purchased	2,139,297	11,259	2,224	4,776	2,157,556
Transfer to Stage 1	272,027	(241,184)	(30,843)	-	-
Transfer to Stage 2	(457,067)	470,935	(13,868)	-	-
Transfer to Stage 3	(167,089)	(175,960)	343,049	-	-
Assets derecognized (excluding write-offs)	-	-	(363)	-	(363)
Assets repaid	(1,679,766)	(110,816)	(174,039)	(472)	(1,965,093)
Impact of modifications	-	-	(2,124)	59	(2,065)
Write-offs	-	-	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	(872)	(8)	(29)	-	(909)
Net other changes	14,420	(185)	19,982	77	34,294
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
Individually assessed	-	-	325	-	325
Collectively assessed	1,650,080	101,146	120,866	4,471	1,876,563
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Consumer loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**38,560**	**15,646**	**43,134**	**14**	**97,354**
New financial asset originated or purchased	92,269	2,050	883	255	95,457
Transfer to Stage 1	40,697	(26,102)	(14,595)	-	-
Transfer to Stage 2	(29,909)	36,760	(6,851)	-	-
Transfer to Stage 3	(52,634)	(21,277)	73,911	-	-
Impact on ECL of exposures transferred between stages during the year	(17,251)	(2,270)	26,661	-	7,140
Assets derecognized (excluding write-offs)	-	-	(3)	-	(3)
Assets repaid	(37,773)	(12,836)	(73,098)	(36)	(123,743)
Impact of modifications	-	-	-	(420)	(420)
Write-offs	-	-	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	57	34	5	-	96
Net other measurement of ECL	(14,362)	17,350	110,812	633	114,433
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**
Individually assessed	-	-	111	-	111
Collectively assessed	19,654	9,355	62,032	389	91,430
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Micro and SME loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,625,728**	**57,178**	**114,928**	**3,401**	**1,801,235**
New financial asset originated or purchased	1,923,582	3,787	96	1,123	1,928,588
Transfer to Stage 1	84,240	(78,991)	(5,249)	-	-
Transfer to Stage 2	(212,351)	222,077	(9,726)	-	-
Transfer to Stage 3	(38,253)	(63,122)	101,375	-	-
Assets derecognized (excluding write-offs)	-	-	(956)	-	(956)
Assets repaid	(1,498,299)	(57,258)	(57,425)	(1,098)	(1,614,080)
Impact of modifications	-	-	(1,150)	(2)	(1,152)
Write-offs	-	-	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	(5,179)	(348)	(1,506)	-	(7,033)
Net other changes	34,496	1,988	9,123	(1,171)	44,436
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
Individually assessed	-	-	9,806	-	9,806
Collectively assessed	1,913,964	85,311	117,899	2,235	2,119,409
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Micro and SME loans loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**6,690**	**2,934**	**34,533**	**410**	**44,567**
New financial asset originated or purchased	10,485	-	-	201	10,686
Transfer to Stage 1	3,622	(2,473)	(1,149)	-	-
Transfer to Stage 2	(3,692)	5,215	(1,523)	-	-
Transfer to Stage 3	(1,990)	(2,185)	4,175	-	-
Impact on ECL of exposures transferred between stages during the year	(1,162)	1,111	3,247	-	3,196
Assets derecognized (excluding write-offs)	-	-	(200)	-	(200)
Assets repaid	(5,500)	(1,377)	(13,533)	(1)	(20,411)
Impact of modifications	-	-	-	(183)	(183)
Write-offs	-	-	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	97	256	(665)	-	(312)
Net other measurement of ECL	889	1,972	26,646	(339)	29,168
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**
Individually assessed	-	-	7,091	-	7,091
Collectively assessed	9,439	5,453	22,635	70	37,597
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Residential mortgage loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,583,402**	**83,581**	**52,043**	**751**	**1,719,777**
New financial asset originated or purchased	1,784,950	532	17	24,088	1,809,587
Transfer to Stage 1	161,836	(152,752)	(9,084)	-	-
Transfer to Stage 2	(226,504)	234,139	(7,635)	-	-
Transfer to Stage 3	(73,754)	(49,756)	123,510	-	-
Assets derecognized (excluding write-offs)	-	-	(1,830)	-	(1,830)
Assets repaid	(939,819)	(31,367)	(71,161)	(2,025)	(1,044,372)
Impact of modifications	-	-	(689)	(1)	(690)
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	(2)	-	-	-	(2)
Net other changes	61,098	2,432	2,521	440	66,491
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
Individually assessed	-	-	732	2,451	3,183
Collectively assessed	2,351,207	86,809	87,517	20,737	2,546,270
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Residential mortgage loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**302**	**59**	**3,267**	**61**	**3,689**
New financial asset originated or purchased	1,315	-	-	595	1,910
Transfer to Stage 1	230	(92)	(138)	-	-
Transfer to Stage 2	(57)	209	(152)	-	-
Transfer to Stage 3	(982)	(37)	1,019	-	-
Impact on ECL of exposures transferred between stages during the year	(173)	(106)	1,436	-	1,157
Assets derecognized (excluding write-offs)	-	-	(41)	-	(41)
Assets repaid	(94)	(9)	(4,237)	(94)	(4,434)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	(303)	7	3,672	592	3,968
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**
Individually assessed	-	-	-	-	-
Collectively assessed	238	31	5,383	1,089	6,741
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

Gold – pawn loans at amortised cost, gross:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**65,670**	**431**	**1,839**	**-**	**67,940**
New financial asset originated or purchased	80,944	-	96	-	81,040
Transfer to Stage 1	4,300	(1,855)	(2,445)	-	-
Transfer to Stage 2	(3,396)	3,694	(298)	-	-
Transfer to Stage 3	(8,800)	(1,641)	10,441	-	-
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(63,239)	(92)	(4,553)	-	(67,884)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other changes	4	4	155	-	163
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**
Individually assessed	-	-	-	-	-
Collectively assessed	75,483	541	4,747	-	80,771
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**

Gold – pawn loans at amortised cost, ECL:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**-**	**-**	**34**	**-**	**34**
New financial asset originated or purchased	76	-	-	-	76
Transfer to Stage 1	22	-	(22)	-	-
Transfer to Stage 2	-	10	(10)	-	-
Transfer to Stage 3	(76)	-	76	-	-
Impact on ECL of exposures transferred between stages during the year	(22)	(10)	77	-	45
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(3)	(1)	(220)	-	(224)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	14	1	836	-	851
Balance at 31 December 2018	**11**	**-**	**283**	**-**	**294**
Individually assessed	-	-	-	-	-
Collectively assessed	11	-	283	-	294
Balance at 31 December 2018	**11**	**-**	**283**	**-**	**294**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Expected credit loss (continued)

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2017	*2017*	*2017*	*2017*	*2017*
At 1 January	**156,067**	**58,785**	**3,891**	**30,334**	**249,077**
Charge	41,659	80,607	2,700	31,592	156,558
Recoveries	9,979	23,485	8,151	11,177	52,792
Write-offs	(35,053)	(74,027)	(9,912)	(32,267)	(151,259)
Accrued interest on written-off loans	(10,746)	(16,649)	(768)	(4,141)	(32,304)
Currency translation differences	18	(143)	-	(199)	(324)
At 31 December	**161,924**	**72,058**	**4,062**	**36,496**	**274,540**
Individual impairment	153,340	1,019	2,427	23,621	180,407
Collective impairment	8,584	71,039	1,635	12,875	94,133
	161,924	**72,058**	**4,062**	**36,496**	**274,540**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**310,308**	**2,178**	**14,671**	**53,117**	**380,274**

The contractual amounts outstanding on loans to customers that have been written off during the reporting period, but are still subject to enforcement activity was GEL 58,627 (2018: GEL 67,001, 2017: GEL 70,904).

10. Loans to customers and finance lease receivables (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables, third party corporate guarantees and personal guarantees of shareholders.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, third party corporate guarantees and personal guarantees of shareholders.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for expected credit loss / impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account the discounted value of collateral, the ECL for credit-impaired loans would be as follows:

- For commercial loans: GEL 162,684 as at 31 December 2019 (2018: GEL 249,514);
- For consumer loans: GEL 85,890 as at 31 December 2019 (2018: GEL 86,622);
- For Micro and SME: GEL 104,075 as at 31 December 2019 (2018: GEL 107,980);
- For Residential mortgage loans: GEL 101,542 as at 31 December 2019 (2018: GEL 75,073);
- Gold – pawn loans: GEL 2,561 as at 31 December 2019 (2018: GEL 283).

Without taking into account the discounted value of collateral, the allowance for expected credit loss / impairment of loans would be GEL 294,425 higher as at 31 December 2019 (2018: GEL 263,482 higher, 2017: GEL 253,818 higher).

Concentration of loans to customers

As at 31 December 2019, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 1,023,217 accounting for 9% of the gross loan portfolio of the Group (2018: GEL 788,216 and 8% respectively, 2017: GEL 671,120 and 9% respectively). An allowance of GEL 1,634 (2018: GEL 44,079, 2017: GEL 41,207) was established against these loans.

As at 31 December 2019, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,602,923 accounting for 14% of the gross loan portfolio of the Group (2018: GEL 1,067,718 and 11% respectively, 2017: GEL 860,946 and 11% respectively). An allowance of GEL 60,953 (2018: GEL 42,108, 2017: GEL 73,269) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Concentration of loans to customers (continued)

As at 31 December 2019, 31 December 2018 and 31 December 2017, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2019	*2018*	*2017*
Individuals	6,507,095	5,509,279	4,297,115
Trade	1,263,638	1,023,776	808,335
Manufacturing	1,138,775	937,454	699,574
Real estate	717,063	436,450	432,352
Construction	572,159	366,009	368,509
Hospitality	399,148	301,415	283,527
Transport & communication	248,210	132,588	114,926
Service	224,063	128,535	192,202
Mining and quarrying	117,801	127,835	104,799
Electricity, gas and water supply	50,318	76,574	84,727
Financial intermediation	88,276	61,866	51,597
Other	500,448	329,364	282,455
Loans to customers, gross	**11,826,994**	**9,431,145**	**7,720,118**
Less – Allowance for expected credit loss	(217,134)	(310,264)	(274,540)
Loans to customers, net	**11,609,860**	**9,120,881**	**7,445,578**

Loans have been extended to the following types of customers:

	2019	*2018*	*2017*
Individuals	6,507,095	5,509,279	4,297,115
Private companies	5,305,297	3,919,089	3,423,003
State-owned entities	14,602	2,777	-
Loans to customers, gross	**11,826,994**	**9,431,145**	**7,720,118**
Less – Allowance for expected credit loss	(217,134)	(310,264)	(274,540)
Loans to customers, net	**11,609,860**	**9,120,881**	**7,445,578**

Finance lease receivables

	2019	*2018*	*2017*
Minimum lease payments receivable	220,543	155,043	83,008
Less – Unearned finance lease income	(61,352)	(44,956)	(15,322)
	159,191	**110,087**	**67,686**
Less – Allowance for expected credit loss / impairment loss	(2,297)	(1,648)	(2,380)
Finance lease receivables, net	**156,894**	**108,439**	**65,306**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2019 finance lease receivables carried at GEL 74,489 were pledged for inter-bank loans received from several credit institutions (2018: GEL 46,867, 2017: nil).

As at 31 December 2019, the concentration of investment in the five largest lease receivables comprised GEL 16,249 or 10% of total finance lease receivables (2018: GEL 9,803 or 9%, 2017: GEL 4,403 or 7%) and finance income received from them for the year ended 31 December 2019 comprised GEL 2,226 or 9% of total finance income from lease (2018: GEL 1,185 or 7%, 2017: GEL 755 or 8%).

Future minimum lease payments to be received after 31 December 2019, 31 December 2018 and 31 December 2017 are as follows:

	2019	*2018*	*2017*
Within 1 year	85,815	62,475	43,782
From 1 to 5 years	130,700	89,781	34,224
More than 5 years	4,028	2,787	5,002
Minimum lease payment receivables	**220,543**	**155,043**	**83,008**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

Movements of the gross finance lease receivables and respective allowance for expected credit loss / impairment of finance lease receivables are as follows:

Finance lease receivables, gross:	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**100,950**	**5,806**	**3,331**	**-**	**110,087**
New financial asset originated or purchased	132,404	-	-	-	132,404
Transfer to Stage 1	25,731	(25,315)	(416)	-	-
Transfer to Stage 2	(64,572)	64,754	(182)	-	-
Transfer to Stage 3	(4,889)	(28,799)	33,688	-	-
Assets repaid	(64,621)	(4,476)	(6,268)	-	(75,365)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(14,340)	-	(14,340)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Currency translation differences	1,340	46	117	-	1,503
Foreign exchange movement	3,040	485	403	-	3,928
Net other changes	849	(3)	128	-	974
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**-**	**159,191**
Individually assessed	-	-	-	-	-
Collectively assessed	130,232	12,498	16,461	-	159,191
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**-**	**159,191**

Finance lease receivables, ECL:	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2019	**479**	**59**	**1,110**	**-**	**1,648**
New financial asset originated or purchased	939	-	-	-	939
Transfer to Stage 1	207	(194)	(13)	-	-
Transfer to Stage 2	(297)	303	(6)	-	-
Transfer to Stage 3	(64)	(422)	486	-	-
Impact on ECL of exposures transferred between stages during the year	(267)	378	2,038	-	2,149
Assets repaid	(249)	(32)	(1,948)	-	(2,229)
Resegmentation	-	-	-	-	-
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(344)	-	(344)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	-	-	-
Currency translation differences	31	4	73	-	108
Foreign exchange movement	(20)	(1)	(6)	-	(27)
Net other measurement of ECL	-	-	53	-	53
Balance at 31 December 2019	**759**	**95**	**1,443**	**-**	**2,297**
Individually assessed	-	-	-	-	-
Collectively assessed	759	95	1,443	-	2,297
Balance at 31 December 2019	**759**	**95**	**1,443**	**-**	**2,297**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

Finance lease receivables, gross:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**60,306**	**6,005**	**1,375**	**-**	**67,686**
New financial asset originated or purchased	110,810	-	-	-	110,810
Transfer to Stage 1	15,056	(15,044)	(12)	-	-
Transfer to Stage 2	(27,189)	27,420	(231)	-	-
Transfer to Stage 3	(509)	(7,794)	8,303	-	-
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(41,006)	(2,859)	(462)	-	(44,327)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(5,491)	-	(5,491)
Recoveries of amounts previously written off	-	-	-	-	-
Currency translation differences	(580)	(113)	(38)	-	(731)
Net other changes	(15,938)	(1,809)	(113)	-	(17,860)
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**-**	**110,087**
Individually assessed	-	-	1,140	-	1,140
Collectively assessed	100,950	5,806	2,191	-	108,947
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**-**	**110,087**

Finance lease receivables, ECL:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**424**	**894**	**970**	**-**	**2,288**
New financial asset originated or purchased	781	-	-	-	781
Transfer to Stage 1	692	(688)	(4)	-	-
Transfer to Stage 2	(340)	426	(86)	-	-
Transfer to Stage 3	(220)	(549)	769	-	-
Impact on ECL of exposures transferred between stages during the year	(218)	228	352	-	362
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(659)	(170)	(318)	-	(1,147)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(756)	-	(756)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	47	-	47
Currency translation differences	(16)	(43)	(36)	-	(95)
Net other measurement of ECL	35	(39)	172	-	168
Balance at 31 December 2018	**479**	**59**	**1,110**	**-**	**1,648**
Individually assessed	-	-	518	-	518
Collectively assessed	479	59	592	-	1,130
Balance at 31 December 2018	**479**	**59**	**1,110**	**-**	**1,648**

(Thousands of Georgian Lari)

10. Loans to customers and finance lease receivables (continued)

Finance lease receivables (continued)

	Finance lease receivables 2017
At 1 January	**1,499**
Charge	475
Amounts written-off	(299)
Reorganization	758
Currency translation differences	(53)
At 31 December	**2,380**
Individual impairment	1,152
Collective impairment	1,228
	2,380
Gross amount of finance lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,593**

11. Investment Properties

	2019	*2018*	*2017*
At 1 January	**155,183**	**202,534**	**152,596**
Additions*	109,277	71,785	69,330
Disposals	(39,223)	(74,278)	(11,067)
Net (losses) gains from revaluation of investment property	12,662	(994)	7,336
Transfers (to) from property and equipment, other assets and assets held for sale**	(11,537)	(43,864)	(15,939)
Currency translation differences	2,304	-	278
At 31 December	**228,666**	**155,183**	**202,534**

** The additions of 2019, 2018 and 2017 comprise foreclosed properties, no cash transactions were involved.*

*** Comprised of GEL 2,894 transfer from property and equipment (2018: transfers from property and equipment GEL 17,301 and 2017: transfers to property and equipment GEL 4,449 respectively) and GEL 29 transfer to finance lease receivables (2018: transfer to finance lease receivable GEL 6,478 and 2017: transfer to finance lease receivable GEL 11,490). In addition, in 2019 the Group identified certain investment properties in the amount of GEL 14,402 (2018: transfer to assets held for sale GEL 54,687) which met assets held for sale criteria and transferred these assets to respective category.*

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2019 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 28 for details on fair value measurements of investment properties.

(Thousands of Georgian Lari)

12. Property and Equipment and Intangible Assets

The movements in property and equipment during the year ended 31 December 2019 were as follows:

	Office buildings & service centers	*Furniture & fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost							
31 December 2018	**195,973**	**204,972**	**86,412**	**4,695**	**24,270**	**3,111**	**519,433**
Additions	1,508	26,205	28,867	840	429	22,612	80,461
Disposals	(4,101)	(405)	(364)	(907)	-	(1)	(5,778)
Transfers	13,000	(51,733)	51,830	-	5,306	(18,403)	-
Transfers to investment properties	(3,211)	(3)	-	(47)	-	-	(3,261)
Transfers (to) from other assets	-	(1,994)	(6,359)	-	-	(1,451)	(9,804)
Write off	(4,601)	(1,599)	(635)	(28)	(1,264)	-	(8,127)
Transfers from (to) assets held for sale	(2,127)	-	-	-	-	-	(2,127)
Currency translation differences	1,924	195	509	32	50	12	2,722
31 December 2019	**198,365**	**175,638**	**160,260**	**4,585**	**28,791**	**5,880**	**573,519**
Accumulated impairment							
31 December 2018	**2,417**	**32**	**87**	**7**	**-**	**-**	**2,543**
Currency translation differences	140	4	11	1	-	-	156
31 December 2019	**2,557**	**36**	**98**	**8**	**-**	**-**	**2,699**
Accumulated depreciation							
31 December 2018	**19,897**	**115,013**	**57,244**	**2,430**	**10,289**	**-**	**204,873**
Depreciation charge	4,702	10,864	14,176	783	4,368	-	34,893
Currency translation differences	364	109	258	15	47	-	793
Transfers	-	(31,200)	31,200	-	-	-	-
Transfers to investment properties	(331)	-	-	(36)	-	-	(367)
Transfers (to) from other assets	-	(1,883)	(3,290)	-	-	-	(5,173)
Transfers from (to) assets held for sale	(437)	-	-	-	-	-	(437)
Write off	(961)	(81)	(239)	(27)	(1,237)	-	(2,545)
Disposals	(77)	(247)	(217)	(402)	-	-	(943)
31 December 2019	**23,157**	**92,575**	**99,132**	**2,763**	**13,467**	**-**	**231,094**
Net book value:							
31 December 2018	**173,659**	**89,927**	**29,081**	**2,258**	**13,981**	**3,111**	**312,017**
31 December 2019	**172,651**	**83,027**	**61,030**	**1,814**	**15,324**	**5,880**	**339,726**

(Thousands of Georgian Lari)

12. Property and Equipment and Intangible Assets (continued)

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings & service centers	*Furniture & fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost							
31 December 2017	**199,296**	**197,869**	**75,069**	**7,443**	**18,268**	**7,877**	**505,822**
Additions	270	24,084	14,718	1,002	240	15,876	56,190
Business combination, Note	-	-	-	-	-	-	-
Disposals	(1,679)	(3,065)	(740)	(2,632)	(859)	-	(8,975)
Transfers	11,200	(933)	6	-	6,651	(16,924)	-
Transfers to investment properties	(14,471)	-	-	-	-	(3,741)	(18,212)
Transfers (to) from other assets	-	(12,874)	(2,201)	(1,101)	-	43	(16,133)
Revaluation	2,227	-	-	-	-	-	2,227
Currency translation differences	(870)	(109)	(440)	(17)	(30)	(20)	(1,486)
31 December 2018	**195,973**	**204,972**	**86,412**	**4,695**	**24,270**	**3,111**	**519,433**
Accumulated impairment							
31 December 2017	**2,472**	**38**	**83**	**7**	**-**	**-**	**2,600**
Currency translation differences	(55)	(6)	4	-	-	-	(57)
31 December 2018	**2,417**	**32**	**87**	**7**	**-**	**-**	**2,543**
Accumulated depreciation							
31 December 2017	**20,263**	**117,269**	**50,045**	**4,155**	**6,016**	**-**	**197,748**
Depreciation charge	2,078	14,888	8,581	896	5,098	-	31,541
Currency translation differences	(296)	11	(50)	(1)	(24)	-	(360)
Transfers	-	(5)	5	-	-	-	-
Transfers to investment properties	(911)	-	-	-	-	-	(911)
Transfers (to) from other assets	-	(14,760)	(1,048)	-	-	-	(15,808)
Disposals	(1,237)	(2,390)	(289)	(2,620)	(801)	-	(7,337)
31 December 2018	**19,897**	**115,013**	**57,244**	**2,430**	**10,289**	**-**	**204,873**
Net book value:							
31 December 2017	**176,561**	**80,562**	**24,941**	**3,281**	**12,252**	**7,877**	**305,474**
31 December 2018	**173,659**	**89,927**	**29,081**	**2,258**	**13,981**	**3,111**	**312,017**

(Thousands of Georgian Lari)

12. Property and Equipment and Intangible Assets (continued)

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings & service centers	*Furniture & fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost							
31 December 2016	**186,520**	**178,144**	**63,770**	**6,270**	**14,746**	**4,785**	**454,235**
Additions	-	20,818	12,834	1,079	80	14,667	49,478
Business combination	2,399	18	17	45	-	-	2,479
Disposals	(1,871)	(316)	(191)	(148)	(3,779)	-	(6,305)
Transfers	13,104	4	121	-	7,007	(20,236)	-
Transfers from (to) investment properties	(4,115)	-	-	206	-	8,305	4,396
Transfers (to) from other assets	40	(735)	(1,365)	-	232	153	(1,675)
Revaluation	3,197	-	-	-	-	286	3,483
Currency translation differences	22	(64)	(117)	(9)	(18)	(83)	(269)
31 December 2017	**199,296**	**197,869**	**75,069**	**7,443**	**18,268**	**7,877**	**505,822**
Accumulated impairment							
31 December 2016	**2,509**	**40**	**86**	**7**	**-**	**-**	**2,642**
Currency translation differences	(37)	(2)	(3)	-	-	-	(42)
31 December 2017	**2,472**	**38**	**83**	**7**	**-**	**-**	**2,600**
Accumulated depreciation							
31 December 2016	**19,123**	**102,675**	**43,446**	**3,210**	**5,745**	**-**	**174,199**
Depreciation charge	2,091	16,024	8,003	1,063	3,725	-	**30,906**
Currency translation differences	(325)	-	(33)	-	(5)	-	(363)
Transfers to investment properties	(53)	-	-	-	-	-	(53)
Transfers (to) from other assets	(171)	(1,238)	(1,242)	-	-	-	(2,651)
Disposals	(402)	(192)	(129)	(118)	(3,449)	-	(4,290)
31 December 2017	**20,263**	**117,269**	**50,045**	**4,155**	**6,016**	**-**	**197,748**
Net book value:							
31 December 2016	**164,888**	**75,429**	**20,238**	**3,053**	**9,001**	**4,785**	**277,394**
31 December 2017	**176,561**	**80,562**	**24,941**	**3,281**	**12,252**	**7,877**	**305,474**

Within the regular cycle of the useful life review for its Property and Equipment, the Group has changed the estimates regarding the remaining useful life of certain groups of assets. The updated useful lives better depict the period over which the assets are expected to be available for use for the Group. The change in accounting estimate was applied from the second half of the year on a prospective basis resulting in an increase of depreciation expense by GEL 2,598.

(Thousands of Georgian Lari)

12. Property and Equipment and Intangible Assets (continued)

The movements in Intangible Assets were as follows:

	Software and License	*Other*	*Total*
Cost			
31 December 2018	**88,164**	**26,255**	**114,419**
Additions	32,774	-	32,774
Disposals	(121)	-	(121)
Write-offs	(2,376)	(91)	(2,467)
Demerger	-	-	-
Currency translation differences	2,688	-	2,688
31 December 2019	**121,129**	**26,164**	**147,293**
Accumulated amortisation			
31 December 2018	**37,161**	**689**	**37,850**
Amortization charge	11,320	2,531	13,851
Disposals	(121)	-	(121)
Write-offs	(2,052)	(10)	(2,062)
Currency translation differences	2,302	2	2,304
31 December 2019	**48,610**	**3,212**	**51,822**
Net book value:			
31 December 2018	**51,003**	**25,566**	**76,569**
31 December 2019	**72,519**	**22,952**	**95,471**

	Software and License	*Other*	*Total*
Cost			
31 December 2017	**85,311**	**3,259**	**88,570**
Additions	17,499	23,134	40,633
Disposals	(112)	-	(112)
Write-offs	(14,419)	(138)	(14,557)
Currency translation differences	(115)	-	(115)
31 December 2018	**88,164**	**26,255**	**114,419**
Accumulated amortisation			
31 December 2017	**37,255**	**367**	**37,622**
Amortization charge	8,912	381	9,293
Disposals	(107)	-	(107)
Write-offs	(8,873)	(58)	(8,931)
Currency translation differences	(26)	(1)	(27)
31 December 2018	**37,161**	**689**	**37,850**
Net book value:			
31 December 2017	**48,056**	**2,892**	**50,948**
31 December 2018	**51,003**	**25,566**	**76,569**

(Thousands of Georgian Lari)

12. Property and Equipment and Intangible Assets (continued)

	Software and License	*Other*	*Total*
Cost			
31 December 2016	**56,933**	**9,157**	**66,090**
Additions	21,726	842	22,568
Disposals	(155)	(3)	(158)
Transfers	6,737	(6,737)	-
Business combination	111	-	111
Currency translation differences	(41)	-	(41)
31 December 2017	**85,311**	**3,259**	**88,570**
Accumulated amortisation			
31 December 2016	**28,432**	**1,844**	**30,276**
Amortization charge	6,923	585	7,508
Disposals	(160)	-	(160)
Transfers	2,062	(2,062)	-
Currency translation differences	(2)	-	(2)
31 December 2017	**37,255**	**367**	**37,622**
Net book value:			
31 December 2016	**28,501**	**7,313**	**35,814**
31 December 2017	**48,056**	**2,892**	**50,948**

13. Goodwill

Movements in goodwill during the years ended 31 December 2019, 31 December 2018 and 31 December 2017, were as follows:

	2019	*2018*	*2017*
Cost			
1 January	**57,209**	**57,209**	**57,209**
At 31 December	**57,209**	**57,209**	**57,209**
Accumulated impairment			
1 January	**23,756**	**23,756**	**23,756**
At 31 December	**23,756**	**23,756**	**23,756**
Net book value:			
1 January	**33,453**	**33,453**	**33,453**
At 31 December	**33,453**	**33,453**	**33,453**

(Thousands of Georgian Lari)

13. Goodwill (continued)

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2019	*2018*	*2017*
Retail banking	23,488	23,488	23,488
Corporate banking	9,965	9,965	9,965
Total	**33,453**	**33,453**	**33,453**

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			*Retail Banking*		
	2019, %	*2018, %*	*2017, %*	*2019, %*	*2018, %*	*2017, %*
Discount rate	5.0%	4.7%	4.5%	6.7%	6.2%	6.1%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost / income structure or ratio; and
- Stable, business as usual growth of trade finance and other documentary businesses.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2019. Possible change was taken as +/-1% in discount rate and growth rate.

(Thousands of Georgian Lari)

14. Taxation

The corporate income tax credit (expense) comprises:

	2019	2018	2017
Current income expense	(48,340)	(37,896)	(38,024)
Deferred income tax credit (expense)	(8,117)	(18,683)	10,184
Income tax (expense) credit	**(56,457)**	**(56,579)**	**(27,840)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2019, 2018 and 2017 was as follows:

	2019	2018	2017
Currency translation differences	-	-	(578)
Net losses on investment securities	-	(265)	27
Revaluation of buildings	-	-	(781)
Income tax expense in other comprehensive income	**-**	**(265)**	**(1,332)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2018: from 15% to 25%, 2017: from 15% to 25%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period the Group will only continue to recognize the portion of deferred tax assets and liabilities arising on items charged or credited to income statement during the same period, which it expects to utilize before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2019, 31 December 2018 and 31 December 2017 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2019	2018	2017
Profit before income tax expense	**569,344**	**400,107**	**366,747**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(85,402)**	**(60,016)**	**(55,012)**
Tax at the domestic rates applicable to profits in each country	(308)	(788)	(1,273)
Non-taxable income	29,833	37,670	24,150
Correction of prior year declarations	-	-	4,645
Effects from changes in tax legislation	-	(30,275)	-
Non-deductible expenses	(825)	(4,424)	(350)
Other	245	1,254	-
Income tax (expense) benefit	**(56,457)**	**(56,579)**	**(27,840)**

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

	2019	2018	2017
Current income tax assets	75	19,234	696
Deferred income tax assets	207	123	130
Income tax assets	**282**	**19,357**	**826**
Current income tax liabilities	1,563	679	8,753
Deferred income tax liabilities	36,355	28,154	11,342
Income tax liabilities	**37,918**	**28,833**	**20,095**

(Thousands of Georgian Lari)

14. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2019, 31 December 2018 and 31 December 2017 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*				*Origination and reversal of temporary differences*	
	2016	*In the income statement*	*IFRS 15 adoption*	*In other compre-hensive income*	*2017*	*In the income statement*	*IFRS 9 adoption*	*In other compre-hensive income*	*2018*	*In the income statement*	*2019*
Tax effect of deductible temporary differences:											
Amounts due to credit institutions	-	-	-	-	-	26	77	-	103	(40)	63
Investment securities	-	-	-	-	-	-	-	-	-	66	66
Investment properties	490	(284)	-	(18)	188	17	-	-	205	23	228
Allowances for impairment and provisions for other losses	6,491	1,292	-	(7)	7,776	(7,159)	-	-	617	(617)	-
Tax losses carried forward	-	-	-	-	-	8	10	-	18	(18)	-
Property and equipment	820	81	-	(179)	722	1,255	-	-	1,977	150	2,127
Intangible assets	-	-	-	-	-	-	-	-	-	199	199
Lease liability	-	-	-	-	-	-	-	-	-	8,306	8,306
Accruals and deferred income	-	-	-	-	-	-	-	-	-	1,691	1,691
Other assets and liabilities	2,196	1,824	-	(214)	3,806	3,820	(87)	-	7,539	(4,780)	2,759
Deferred tax assets	**9,997**	**2,913**	**-**	**(418)**	**12,492**	**(2,033)**	**-**	**-**	**10,459**	**4,980**	**15,439**
Tax effect of taxable temporary differences:											
Amounts due to credit institutions	1,230	(470)	-	-	760	1,825	-	-	2,585	(635)	1,950
Debt securities issued	-	-	-	-	-	2,722	-	-	2,722	(411)	2,311
Cash and Cash equivalents	-	-	-	-	-	2,669	-	-	2,669	(599)	2,070
Investment securities	-	-	-	-	-	(26)	83	265	322	(322)	-
Loans to customers and finance lease	18,466	(4,423)	-	(262)	13,781	3,463	(1,973)	-	15,271	10,633	25,904
Property and equipment	6,417	(2,668)	-	1,203	4,952	5,468	-	-	10,420	(1,269)	9,151
Investment properties	-	-	-	-	-	584	-	-	584	(356)	228
Assets held for sale	-	-	-	-	-	-	-	-	-	1,227	1,227
Right of use assets	-	-	-	-	-	-	-	-	-	8,465	8,465
Intangible assets	19	(2)	-	(1)	16	(4)	-	-	12	9	21
Client deposits and notes	-	-	-	-	-	-	-	-	-	35	35
Accruals and deferred income	-	-	-	-	-	-	-	-	-	225	225
Other assets and liabilities	5,840	292	(1,911)	(26)	4,195	(51)	(239)	-	3,905	(3,905)	-
Deferred tax liabilities	**31,972**	**(7,271)**	**(1,911)**	**914**	**23,704**	**16,650**	**(2,129)**	**265**	**38,490**	**13,097**	**51,587**
Net deferred tax liabilities	**(21,975)**	**10,184**	**1,911**	**(1,332)**	**(11,212)**	**(18,683)**	**2,129**	**(265)**	**(28,031)**	**(8,117)**	**(36,148)**

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities

Other assets comprise:

	2019	*2018*	*2017*
Derivative financial assets	34,559	35,557	13,484
Receivables from remittance operations	33,909	8,866	12,890
Assets purchased for finance lease purposes	22,984	13,783	10,477
Other receivables	14,064	20,561	10,458
Investments in associates	12,949	12,371	11,031
Operating tax assets	8,776	4,255	4,377
Foreclosed assets	7,164	4,374	52,095
Settlements on operations	144	167	929
Other	6,615	22,952	16,349
	141,164	**122,886**	**132,090**
Less – Allowance for impairment of other assets	(8,154)	(4,431)	(21,333)
Other assets	**133,010**	**118,455**	**110,757**

Other liabilities comprise:

	2019	*2018*	*2017*
Creditors	24,462	10,038	18,974
Derivatives margin	12,532	-	-
Other taxes payable	12,100	7,728	7,346
Derivative financial liabilities	10,836	11,569	3,948
Provisions	6,154	4,582	2,815
Advances received	5,072	8,279	2,761
Accounts payable	1,852	323	98
Dividends payable	1,578	1,304	1,064
Other	26,343	18,242	8,308
Other liabilities	**100,929**	**62,065**	**45,314**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2019		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	797,784	5,620	1,242
Forwards and Swaps – foreign	5,482,178	26,373	7,680
Interest rate contracts			
Options – foreign	8,351	2,566	1,914
Total derivative assets / liabilities	**6,288,313**	**34,559**	**10,836**

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities (continued)

	2018			2017		
	Notional amount	Fair value Asset	Fair value Liability	Notional amount	Fair value Asset	Fair value Liability
Foreign exchange contracts						
Forwards and Swaps – domestic	721,906	3,110	981	370,523	3,039	1,958
Forwards and Swaps – foreign	1,920,039	19,811	4,228	227,585	1,576	534
Interest rate contracts						
Forwards and Swaps – foreign	1,109,990	12,636	6,360	777,660	7,368	-
Options – foreign	-	-	-	10,183	1,501	1,456
Total derivative assets / liabilities	**3,751,935**	**35,557**	**11,569**	**1,385,951**	**13,484**	**3,948**

16. Client deposits and notes

The client deposits and notes include the following:

	2019	2018	2017
Time deposits	5,055,089	4,064,347	3,352,379
Current accounts	5,081,606	4,132,204	3,697,021
Promissory notes issued	-	-	74,466
Client deposits and notes	**10,136,695**	**8,196,551**	**7,123,866**
Held as security against letters of credit and guarantees	**90,346**	**125,393**	**98,399**

As at 31 December 2018 and 31 December 2017, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate.

At 31 December 2019, amounts due to customers of GEL 828,952 (8%) were due to the 10 largest customers (2018: GEL 966,873 (12%), 2017: GEL 1,066,616 (15%).

Client deposits and notes include accounts with the following types of customers:

	2019	2018	2017
Individuals	6,449,190	4,827,522	3,866,404
Private enterprises	3,325,496	2,828,809	2,793,175
State and state-owned entities	362,009	540,220	464,287
Client deposits and notes	**10,136,695**	**8,196,551**	**7,123,866**

The breakdown of client deposits and notes by industry sector is as follows:

	2019	2018	2017
Individuals	6,449,190	4,827,522	3,866,404
Construction	632,389	572,628	279,623
Trade	533,548	536,833	593,752
Government services	320,470	508,410	438,492
Financial intermediation	576,361	471,488	659,464
Transport & communication	419,570	342,745	257,818
Service	293,887	304,190	306,061
Manufacturing	269,627	178,619	225,336
Real estate	125,679	101,020	105,030
Electricity, gas and water supply	93,757	95,987	109,780
Hospitality	62,084	40,216	44,241
Other	360,133	216,893	237,865
Client deposits and notes	**10,136,695**	**8,196,551**	**7,123,866**

(Thousands of Georgian Lari)

17. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions comprise:

	2019	2018	2017
Short-term loans from the National Bank of Georgia	1,551,953	1,118,957	793,528
Borrowings from international credit institutions	1,211,518	895,994	1,087,897
Time deposits and inter-bank loans	195,982	196,523	261,173
Correspondent accounts	263,975	118,693	204,512
Other borrowings*	-	-	386,426
	3,223,428	**2,330,167**	**2,733,536**
Non-convertible subordinated debt	461,493	419,181	428,673
Amounts due to credit institutions	**3,684,921**	**2,749,348**	**3,162,209**

** Other borrowings represent USD-denominated borrowing from JSC BGEO originally maturing in 2023, which has been covered in advance in March 2018.*

During the year ended 31 December 2019, the Group paid up to 6.50% on USD borrowings from international credit institutions (2018: up to 6.10%, 2017: up to 6.27%). During the year ended 31 December 2019, the Group paid up to 11.13% on USD subordinated debt (2018: up to 10.00% and 2017: up to 8.92%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2019, 31 December 2018 and 31 December 2017 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

In May 2015, the Bank entered into a USD 90 million subordinated loan agreement with the International Finance Corporation ("IFC"). The loan facility, which includes USD 20 million participation from the European Fund for Southeast Europe ("EFSE"), has a maturity of ten years. The loan facility has been approved as the Bank's Tier 2 capital by the NBG under Basel II framework and has been grandfathered by the NBG until its maturity to serve as the Bank's Tier 2 capital in light of new Basel III framework. The loan contains certain information and financial covenants customary in a contract with a development financial institution, and the early repayment options in cases of customary events of default (except for insolvency and/or liquidation events per applicable regulations) are available only (1) after expiry of the 5 years of the term of the facility; and (ii) only after the NBG's prior approval towards such acceleration.

In June 2019 the Bank and the European Fund for Southeast Europe ("EFSE") have entered into a USD 10 million subordinated loan agreement with a maturity of 10 years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework.

In September 2019 the Bank and responsAbility Micro and SME Finance Fund have entered into a USD 10 million subordinated loan agreement with a maturity of 10 years. The subordinated loan facility qualifies for Tier II capital under the Basel III framework.

In December 2019, the Bank signed a ten-year USD 107 million subordinated syndicated loan agreement arranged by FMO - Dutch entrepreneurial development bank in collaboration with other participating lenders. The disbursed portion of the facility has been included into the Bank's Tier 2 capital by approval of the National Bank of Georgia under the Basel III framework in the amount of USD 52 million for which the regulatory approval on classification was received in December 2019. The remaining undrawn portions are similarly expected to be included into the Bank's Tier 2 Capital subject to the relevant NBG approvals. In accordance with applicable Tier 2 rules, the facility provides for the possibilities of acceleration by the lenders only in case of insolvency or liquidation events as defined in NBG regulations. The other possibilities of early repayment include (i) failure of the facility or its portion to be qualified as Tier 2 Capital by NBG within 45 days of the relevant disbursement; and (ii) repayment with the NBG's specific prior approval in limited cases of illegality or change of control after expiry of 5 years of the term of the facility.

Subordinated debt contracts details (more than 10% of total subordinated debt, on a contract basis):

Facility provider	Commencement date	Maturity date	Interest rate	Currency	Original contractual value	Carrying value as at 31 December 2019
International Finance Corporation	29-Jun-15	15-Jun-25	9.4%	USD	90,000	258,020
FMO - Dutch entrepreneurial development bank	20-Dec-19	20-Dec-29	7.6%	USD	52,000	144,778

(Thousands of Georgian Lari)

18. Debt Securities Issued

Debt securities issued comprise:

	2019	2018	2017
Eurobonds and notes issued	1,442,298	1,350,921	454,953
Additional Tier 1 capital notes issued	282,407	-	-
Certificates of deposit	343,536	323,171	268,552
Local bonds	72,540	36,940	26,150
Debt securities issued	**2,140,781**	**1,711,032**	**749,655**

On 21 March 2019, JSC Bank of Georgia successfully issued an inaugural US$ 100 million offering of 11.125% Additional Tier 1 Capital Perpetual Subordinated Notes callable after 5.25 years and on every subsequent interest payment date, subject to prior consent of the National Bank of Georgia (the "Notes"). The Notes have been issued in accordance with Regulation S as adopted by the United States SEC and sold at an issue price of 100.00%. The notes qualify as the Bank's Additional Tier 1 Capital under Basel III framework, with the NBG's approval.

Changes in liabilities arising from financing activities

	Debt securities issued
Carrying amount at 31 December 2017	-
Carrying amount at 31 December 2018	-
Proceeds from additional Tier 1 debt securities issued	268,160
Other movements	14,247
Carrying amount at 31 December 2019	**282,407**

19. Commitments and Contingencies

Legal

Sai-invest

As at 31 December 2019, the Bank was engaged in a litigation proceeding with Sai-Invest LLC in relation to a deposit pledge in the amount of EUR 7 million used to reduce the outstanding loan of LTD Sport Invest towards JSC Bank of Georgia. The Bank's management is of the opinion that the probability of incurring material losses on this claim is low, and accordingly no provision has been made in these consolidated financial statements.

Rustavi Azoti

As at 31 December 2019, the Bank was engaged in litigation proceedings in Tbilisi City Court with East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC. Claimants request reinstatement of the title to the property owned by Rustavi Azoti LLC and compensation of damages in the amount of around USD 93.6m. No provision has been made as the Bank's management believes that the claim is groundless and it is extremely unlikely that any significant loss will eventuate from this claim.

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

(Thousands of Georgian Lari)

19. Commitments and Contingencies (continued)

Financial commitments and contingencies

As at 31 December 2019, 31 December 2018 and 31 December 2017 the Group's financial commitments and contingencies comprised the following:

	2019	*2018*	*2017*
Credit-related commitments			
Guarantees issued	1,347,841	1,015,567	630,413
Undrawn loan facilities	281,615	278,253	261,397
Letters of credit	54,815	42,009	43,423
	1,684,271	**1,335,829**	**935,233**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(90,346)	(125,393)	(98,399)
Less – Provisions (Note 15)	(6,154)	(4,582)	(2,815)
Operating lease commitments			
Not later than 1 year	1,935	29,377	20,115
Later than 1 year but not later than 5 years	906	74,331	47,558
Later than 5 years	146	28,754	18,486
	2,987	**132,462**	**86,159**
Capital expenditure commitments	**4,279**	**6,616**	**2,538**

20. Equity

Share capital

As at 31 December 2019, 2018 and 2017, authorized common capital comprised 43,308,125 shares (2018: 43,308,125 shares, 2017: 43,308,125 shares). As at 31 December 2019, issued and fully paid share capital comprised 27,993,660 common shares (2018: 27,993,660, 2017: 27,821,150). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2019 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2016	**27,821,150**	**27,821**
31 December 2017	**27,821,150**	**27,821**
Issue of share capital	172,510	173
31 December 2018	**27,993,660**	**27,994**
31 December 2019	**27,993,660**	**27,994**

Treasury shares

The number of treasury shares held by the Group as at 31 December 2019 comprised 10,173 (31 December 2018: 8,995, 31 December 2017: 8,995), with nominal amount of GEL 10 (31 December 2018: GEL 9, 31 December 2017: GEL 9).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 14 May 2019, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2018 of Georgian Lari 4.97 per share. Payment of the total GEL 139,200 final dividends was received by shareholders on 17 June 2019.

On 14 June 2018, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2017 of Georgian Lari 4.31 per share. Payment of the total GEL 120,000 final dividends was received by shareholders on 2 July 2018.

(Thousands of Georgian Lari)

20. Equity (continued)

Earnings per share

	2019	2018	2017
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Bank	512,887	343,528	338,761
Weighted average number of ordinary shares outstanding during the year	27,983,827	27,826,807	27,812,155
Earnings per share	18.3280	12.3452	12.1803

Nature and purpose of Other Reserves

Unrealised gains (losses) on investment securities
This reserve records fair value changes on investment securities.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements on this account during the years ended 31 December 2019, 31 December 2018 and 31 December 2017 are presented in the statements of other comprehensive income.

21. Net Interest Income

	2019	2018	2017
Interest income calculated using EIR method	**1,388,391**	**1,289,431**	**1,095,921**
From loans to customers	1,233,626	1,128,518	965,614
From investment securities	136,957	136,115	113,276
From amounts due from credit institutions	27,168	28,705	17,031
Net loss on modification of financial assets	(9,360)	(3,907)	-
Other interest income	**25,610**	**17,947**	**9,464**
From finance lease receivable	25,610	17,947	9,464
Interest Income	**1,414,001**	**1,307,378**	**1,105,385**
On client deposits and notes	(292,149)	(254,680)	(221,410)
On amounts owed to credit institutions	(203,234)	(204,437)	(195,594)
On debt securities issued	(164,881)	(110,762)	(43,834)
Interest element of cross-currency swaps	43,048	-	-
On lease liability	(4,914)	-	-
Interest Expense	**(622,130)**	**(569,879)**	**(460,838)**
Deposit insurance fees	(8,298)	(5,955)	-
Net Interest Income	**783,573**	**731,544**	**644,547**

(Thousands of Georgian Lari)

22. Net Fee and Commission Income

	2019	2018	2017
Settlements operations	216,112	183,184	151,630
Guarantees and letters of credit	25,793	18,211	17,879
Cash operations	19,074	15,585	15,735
Currency conversion operations	10,874	1,691	447
Brokerage service fees	38	-	-
Other	6,360	4,649	5,309
Fee and commission income	**278,251**	**223,320**	**191,000**
Settlements operations	(109,925)	(84,224)	(63,813)
Cash operations	(8,531)	(5,133)	(5,157)
Guarantees and letters of credit	(1,670)	(1,629)	(2,177)
Insurance brokerage service fees	(1,007)	(261)	(211)
Currency conversion operations	(1,281)	(301)	(27)
Other	(3,555)	(2,248)	(3,345)
Fee and commission expense	**(125,969)**	**(93,796)**	**(74,730)**
Net fee and commission income	**152,282**	**129,524**	**116,270**

Revenue from customers

The group has recognised the following amounts relating to revenue from contracts with customers in the income statement:

	2019	2018	2017
Total revenue from contracts with customers	288,594	238,048	193,160

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	31 December 2019	31 December 2018	31 December 2017
Accruals and deferred income	29,489	23,837	17,730

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 7,222 revenue in the current reporting period (2018: GEL 6,873, 2017: GEL 5,531) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2020	In the year ending 31 December 2021	In the year ending 31 December 2022	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers from continuing operations	27,071	13,913	8,299	5,025	2,690	**56,998**

	In the year ending 31 December 2019	In the year ending 31 December 2020	In the year ending 31 December 2021	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers from continuing operations	21,677	9,427	5,533	2,169	152	**38,958**

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers from continuing operations	16,773	7,559	3,223	3,618	495	**31,668**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

(Thousands of Georgian Lari)

23. Salaries and Other Employee Benefits, and General and Administrative Expense

Salaries and other employee benefits

	2019	2018	2017
Salaries and bonuses	(216,112)	(197,697)	(183,016)
Social security costs	(4,919)	(4,528)	(3,869)
Pension costs	(2,626)	-	-
Salaries and other employee benefits	**(223,657)**	**(202,225)**	**(186,885)**

Salaries and bonuses include GEL 57,287, GEL 48,338 and GEL 50,393 of the Equity Compensation Plan costs for the years ended 31 December 2019, 31 December 2018 and 31 December 2017, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

Average number of employees for the year:	2019	2018	2017
Permanent employment:			
Top management	13	7	8
Middle management	52	58	46
Other employees	6,420	6,406	5,907
	6,485	**6,471**	**5,961**
Temporary employment:			
Top management	-	-	-
Middle management	-	-	-
Other employees	26	11	47
	26	**11**	**47**
Total	**6,511**	**6,482**	**6,008**

General and administrative expenses

	2019	2018	2017
Marketing and advertising	(18,292)	(17,166)	(14,575)
Repairs and maintenance	(13,227)	(12,881)	(12,637)
Legal and other professional services	(13,040)	(11,509)	(7,977)
Operating taxes	(10,502)	(7,177)	(6,824)
Corporate hospitality and entertainment	(9,546)	(5,830)	(5,239)
Occupancy and rent	(7,127)	(26,643)	(24,195)
Office supplies	(5,662)	(5,729)	(5,596)
Communication	(5,364)	(5,030)	(5,140)
Travel expenses	(3,996)	(1,773)	(1,641)
Personnel training and recruitment	(3,195)	(5,928)	(3,386)
Insurance	(2,845)	(2,369)	(2,757)
Security	(1,650)	(2,841)	(2,211)
Penalties	(260)	(568)	(49)
Other	(2,953)	(2,703)	(2,780)
General and administrative expenses	**(97,659)**	**(108,147)**	**(95,007)**

Auditors' remuneration

Auditors' remuneration is included within legal and other professional services expenses above and comprises:

	2019	2018	2017
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	521	797	428
Expenditures for other assurance services	573	186	812
Expenditures for other professional services	-	779	-
Total fees	**1,094**	**1,762**	**1,240**

The figures shown in the above table relate to fees paid to EY LLC ("EY") and its associates. Fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 193 (2018: GEL 24 , 2017: GEL 67) and in respect of other services of the Group were GEL 56 (2018: GEL 49 , 2017: GEL 207).

(Thousands of Georgian Lari)

24. Expected Credit Loss

The table below shows ECL charges on financial instruments for the year recorded in the income statement:

	As at 31 December 2019							
	Stage 1		Stage 2		Stage 3		POCI	*Total*
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*		
Cash and cash equivalents	-	(7)	-	-	-	-	-	(7)
Amounts due from credit institutions	-	424	-	-	-	-	-	424
Investment securities measured at FVOCI - debt instruments	-	129	-	-	-	-	-	129
Loans to customers at amortised cost	-	(4,787)	-	5,159	72,903	(159,862)	(1,147)	(87,734)
Loans to customers at FVTPL	-	-	-	-	-	-	-	-
Finance lease receivables	-	(249)	-	(32)	228	(832)	-	(885)
Financial guarantees	-	(378)	-	(15)	141	138	-	(114)
Letter of credit to customers	-	(207)	-	117	(13)	-	-	(103)
Other financial commitments	-	55	-	13	(50)	-	-	18
For the year ended 31 December 2019	**-**	**(5,020)**	**-**	**5,242**	**73,209**	**(160,556)**	**(1,147)**	**(88,272)**

	As at 31 December 2018							
	Stage 1		Stage 2		Stage 3		POCI	*Total*
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*		
Cash and cash equivalents	-	(62)	-	-	-	-	-	(62)
Amounts due from credit institutions	-	(141)	-	-	-	-	-	(141)
Investment securities measured at FVOCI - debt instruments	-	(1,065)	-	-	-	-	-	(1,065)
Loans to customers at amortised cost	-	17,079	-	4,089	5,165	(170,153)	3,628	(140,192)
Finance lease receivables	-	(71)	-	792	(254)	(631)	-	(164)
Accounts receivable and other loans	-	(6)	-	-	-	-	-	(6)
Financial guarantees	-	(1,854)	-	16	291	84	-	(1,463)
Letter of credit to customers	-	186	-	15	-	621	-	822
Other financial commitments	-	(252)	-	(78)	-	-	-	(330)
For the year ended 31 December 2018	**-**	**13,814**	**-**	**4,834**	**5,202**	**(170,079)**	**3,628**	**(142,601)**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the year ended 31 December 2017:

	2017		
	Individual impairment	*Collective impairment*	*Total*
	2017	*2017*	*2017*
At 1 January	**171,265**	**77,812**	**249,077**
Charge for the year	58,823	97,735	156,558
Recoveries	10,948	41,844	52,792
Write-offs	(49,554)	(101,705)	(151,259)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)
Currency translation differences	(307)	(17)	(324)
At 31 December	**180,407**	**94,133**	**274,540**

25. Net Non-recurring Items

	2019	*2018*	*2017*
Termination benefits	(3,985)	(4,401)	(868)
Loss from sale of subsidiary	(224)	(1,414)	-
Demerger related expenses*	-	(34,984)	-
Corporate social responsibility expense**	-	(11,478)	-
Loss on early repayment of parent loan	-	(10,432)	-
Other	(382)	(13,357)	(2,721)
Net non-recurring expense/loss	**(4,591)**	**(76,066)**	**(3,589)**

** Demerger related expenses comprise of: employee compensation expenses in amount of GEL 31,913 including acceleration of share-based compensation of investment business employees, demerger costs recognised in the consolidated income statement in amount of GEL 1,663 and other demerger related expenses in amount of GEL 1,408 .*

*** Corporate social responsibility comprise of the one-off project to support the fiber-optic broadband infrastructure development in rural Georgia.*

26. Share-based Payments

Executives' Equity Compensation Plan ("EECP") and Employees' Equity Compensation Plan ("EECP")

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent.

In 2019 the Group set up Employee Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Employees' Equity Compensation Plan ("EECP").

In 2019, the Group contributed GEL 51,302 (2018: GEL 65,420, 2017: GEL 125,270) as intra-group recharge under share-based compensation schemes described above.

Following the Demerger, Bank of Georgia Group PLC's remuneration committee resolved to amend the contingent share-based compensation of the Management Board members using estimated valuation of the relative share prices of BGEO Group PLC before Demerger and Bank of Georgia Group PLC after the listing.

In March 2019, BOGG's remuneration committee resolved to award 344,000 ordinary shares of BOGG to the members of the Management Board and 185,670 ordinary shares of BOGG to the Group's 33 executives. Shares awarded are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 10 and 20 March 2019 as the grant dates. The Group estimates that the fair value of the shares awarded on 10 and 20 March 2019 were Georgian Lari 56.51 and 59.04 per share, respectively.

In February 2018, BGEO's remuneration committee resolved to award 232,548 ordinary shares of BGEO Group PLC to the members of the Management Board and 79,050 ordinary shares of BGEO Group PLC to the Group's 16 executives. Shares awarded are subject to three-year vesting, with continuous employment being the only vesting condition for both awards The Group considers 14 February 2018 as the grant date. The Group estimates that the fair value of the shares awarded on 14 February 2018 was Georgian Lari 114.56 per share.

In February 2017, BGEO Group PLC's remuneration committee resolved to award 253,950 ordinary shares of BGEO Group PLC to the members of the Management Board and 70,550 ordinary shares of BGEO Group PLC to the Group's 19 executives. Shares awarded to the Management Board and the other 19 executives are subject to two or three-year vesting for Management Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date. The Group estimates that the fair value of the shares awarded on 28 February 2017 was Georgian Lari 90.01 per share.

In 2019 the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 915,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three and five equal instalments during the three and five consecutive years, of which each award will be subject to a four-year vesting period. The Group considers 9 Jan 2019, 1 May 2019 and 3 May 2019 as the grant date for the awards. The Group estimates that the fair value of the shares on 9 Jan 2019, 1 May 2019 and 3 May 2019 were Georgian Lari 52.04, 60.57 and 60.14, respectively.

In 2018 the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOGG. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2019, of which each award will be subject to a four-year vesting period. The Group considers 16 Feb 2018, 23 Mar 2018 and 10 July 2018 as the grant dates for the awards. The Group estimates that the fair value of the shares on 16 Feb 2018, 23 Mar 2018 and 10 July 2018 were Georgian Lari 115.03, 122.23 and 60.47, respectively.

At the end of 2016 and during 2017, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 141,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2018, of which each award will be subject to a four-year vesting period. The Group considers 11 and 18 Oct 2016 and 1 Mar 2017 as the grant date for the awards. The Group estimates that the fair value of the shares on 11 and 18 Oct 2016 and 1 Mar 2017 were Georgian Lari 86.4, 87.6 and 92.2, respectively.

The Bank grants share compensation to its non-executive employees. In March 2019, February 2018 and February 2017, the Supervisory Board of the Bank resolved to award 256,436, 158,960 and 131,710 ordinary shares, respectively, to its certain non-executive employees. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 10 March 2019, 14 February 2018 and 28 February 2017 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 10 March 2019, 14 February 2018 and 28 February 2017 were Georgian Lari 56.51, 114.56 and 90.01 per share, respectively.

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 56.92 per share in year ended 31 December 2019 (31 December 2018: Georgian Lari 106.38 per share, 31 December 2017: Georgian Lari 89.79).

The Group's total share-based payment expenses for the year ended 31 December 2019 comprised GEL 61,272 (31 December 2018: GEL 82,760, 31 December 2017: GEL 50,393) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the share-based payments related data:

	2019	*2018*	*2017*
Total number of equity instruments awarded	1,701,106	667,558	597,210
– *Among them, to Management Board*	*1,259,000*	*429,548*	*394,950*
Weighted average value at grant date, per share (GEL in full amount)	56.92	106.38	89.79
Value at grant date, total (GEL)	**96,832**	**71,012**	**53,626**
Total expense recognised during the year (GEL)	**(61,272)**	**(82,760)**	**(50,393)**

**** 2019 Expense recognised during the year includes GEL 3,985 recorded in non-recurring expenses. 2018 Expense recognised during the year includes GEL 34,422 recorded in non-recurring expenses.***

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee

The Audit Committee assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee

The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board

The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

27. Risk Management (continued)

Introduction (continued)

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO) is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit
The Internal Audit Department is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy and the Group's compliance with those procedures. The Group's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the expected credit loss on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, they do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

27. Risk Management (continued)

Introduction (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of financial assets. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The maximum credit exposure is limited to carrying value of respective instruments and notional amounts of guarantees and commitments provided.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees and letter of credits which may require that the Group make payments on their behalf. Such payments are collected from customers based on the term of the guarantee and letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal and external credit ratings used in ECL calculations.

For corporate loan portfolios the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to borrower, utilising supplemental external information that could affect the borrower's behaviour. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

For retail, micro and SME loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available the Group credit risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

27. Risk Management (continued)

Credit risk (continued)

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grades		External Rating Grades	
			Credit Bureau	Standard & Poor's
High grade				
	Aaa	1	A	AAA
	Aa1	2+	B	AA+
	Aa2	2	C1	AA
	Aa3	2-	C2	AA-
	A1	3+	C3	A+
	A2	3		A
	A3	3-		A-
	Baa1	4+		BBB+
	Baa2	4		BBB
	Baa3	4-		BBB-
Standard grade				
	Ba1	5+	D1	BB+
	Ba2	5	D2	BB
	Ba3	5-	D3	BB-
	B1	6+		B+
	B2	6		B
Low grade				
	B3	6-	E1	B-
	Caa1	7+	E2	CCC+
	Caa2	7	E3	CCC
	Caa3	7-		CCC-
	Ca			CC
				C

**Grades are not supposed to be linked to each other across the rating categories above.*

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the statement of financial position, presented in gross amounts, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents, excluding cash on hand	*As at 31 December 2019*	
	Stage 1	*Total*
High grade	924,686	924,686
Standard grade	369,730	369,730
Low grade	848	848
Not rated	189,945	189,945
Balance at 31 December 2019	**1,485,209**	**1,485,209**

Amounts due from credit institutions	*As at 31 December 2019*	
	Stage 1	*Total*
High grade	30,957	30,957
Standard grade	1,570,270	1,570,270
Low grade	-	-
Not rated	12,794	12,794
Balance at 31 December 2019	**1,614,021**	**1,614,021**

Investment securities measured at FVOCI - debt instruments	*As at 31 December 2019*	
	Stage 1	*Total*
High grade	884,565	884,565
Standard grade	771,422	771,422
Low grade	11,040	11,040
Not rated	95,457	95,457
Balance at 31 December 2019	**1,762,484**	**1,762,484**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Commercial loans at amortised cost	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,639,445	31,717	-	-	1,671,162
Standard grade	588,780	175,331	-	-	764,111
Low grade	334,032	116,850	-	6,583	457,465
Not rated	848,287	25,596	-	-	873,883
Defaulted					
Non-performing	-	-	134,963	-	134,963
Other	-	-	26,781	1,078	27,859
Balance at 31 December 2019	**3,410,544**	**349,494**	**161,744**	**7,661**	**3,929,443**

Consumer loans at amortised cost	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	963,492	11,884	-	471	975,847
Standard grade	569,722	15,113	-	206	585,041
Low grade	155,999	82,621	-	1,673	240,293
Not rated	167,582	540	-	-	168,122
Defaulted					
Non-performing	-	-	25,524	548	26,072
Other	-	-	82,890	6,843	89,733
Balance at 31 December 2019	**1,856,795**	**110,158**	**108,414**	**9,741**	**2,085,108**

Micro and SME loans at amortised cost	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,361,741	13,919	-	-	1,375,660
Standard grade	645,784	31,867	-	9	677,660
Low grade	91,539	45,411	-	99	137,049
Not rated	327,802	21,933	-	-	349,735
Defaulted					
Non-performing	-	-	72,911	950	73,861
Other	-	-	45,564	691	46,255
Balance at 31 December 2019	**2,426,866**	**113,130**	**118,475**	**1,749**	**2,660,220**

Residential mortgage loans at amortised cost	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	2,130,690	52,274	-	731	2,183,695
Standard grade	481,063	33,680	-	1,968	516,711
Low grade	101,978	73,922	-	3,050	178,950
Not rated	51,228	162	-	-	51,390
Defaulted					
Non-performing	-	-	21,005	3,399	24,404
Other	-	-	88,408	23,125	111,533
Balance at 31 December 2019	**2,764,959**	**160,038**	**109,413**	**32,273**	**3,066,683**

Gold – pawn loans at amortised cost	As at 31 December 2019				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	80,795	1,114	-	-	81,909
Defaulted					
Non-performing	-	-	101	-	101
Other	-	-	3,530	-	3,530
Balance at 31 December 2019	**80,795**	**1,114**	**3,631**	**-**	**85,540**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Finance lease receivables	As at 31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	14,679	133	-	14,812
Standard grade	6,450	692	-	7,142
Low grade	7,664	233	-	7,897
Not rated	101,439	11,440	-	112,879
Defaulted				
Non-performing	-	-	6,457	6,457
Other	-	-	10,004	10,004
Balance at 31 December 2019	**130,232**	**12,498**	**16,461**	**159,191**

Accounts receivable	As at 31 December 2019	
	Stage 1	*Total*
Not rated	2,585	2,585
Balance at 31 December 2019	**2,585**	**2,585**

Guarantees issued	As at 31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	178,025	-	-	178,025
Standard grade	36,410	6,220	-	42,630
Low grade	50,215	9,580	-	59,795
Not rated	1,065,866	499	-	1,066,365
Defaulted				
Other	-	-	1,026	1,026
Balance at 31 December 2019	**1,330,516**	**16,299**	**1,026**	**1,347,841**

Letters of credit	As at 31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	24,503	-	-	24,503
Standard grade	21,388	-	-	21,388
Low grade	1,147	-	-	1,147
Not rated	7,165	-	-	7,165
Defaulted				
Other	-	-	612	612
Balance at 31 December 2019	**54,203**	**-**	**612**	**54,815**

Undrawn loan facilities	As at 31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	180,375	201	-	180,576
Standard grade	24,818	372	-	25,190
Low grade	6,496	3,438	-	9,934
Not rated	63,960	613	-	64,573
Defaulted				
Other	-	-	1,342	1,342
Balance at 31 December 2019	**275,649**	**4,624**	**1,342**	**281,615**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Cash and cash equivalents, excluding cash on hand	As at 31 December 2018	
	Stage 1	*Total*
High grade	315,934	315,934
Standard grade	302,981	302,981
Low grade	765	765
Not rated	87,764	87,764
Balance at 31 December 2018	**707,444**	**707,444**

Amounts due from credit institutions	As at 31 December 2018	
	Stage 1	*Total*
High grade	29,744	29,744
Standard grade	1,256,325	1,256,325
Low grade	-	-
Not rated	19,861	19,861
Balance at 31 December 2018	**1,305,930**	**1,305,930**

Investment securities measured at FVOCI - debt instruments	As at 31 December 2018	
	Stage 1	*Total*
High grade	830,008	830,008
Standard grade	1,028,605	1,028,605
Low grade	6,246	6,246
Not rated	71,531	71,531
Balance at 31 December 2018	**1,936,390**	**1,936,390**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Commercial loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,327,033	59,862	-	-	1,386,895
Standard grade	362,875	160,192	-	-	523,067
Low grade	102,328	73,296	-	6,050	181,674
Not rated	425,297	34,479	-	-	459,776
Defaulted					
Non-performing	-	-	187,641	-	187,641
Other	-	-	54,778	987	55,765
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**

Consumer loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	749,583	2,731	-	109	752,423
Standard grade	299,181	4,100	-	-	303,281
Low grade	483,340	93,786	-	194	577,320
Not rated	117,976	529	76	-	118,581
Defaulted					
Non-performing	-	-	38,831	214	39,045
Other	-	-	82,284	3,954	86,238
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Micro and SME loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,024,192	7,449	-	-	1,031,641
Standard grade	347,357	10,016	-	-	357,373
Low grade	240,321	45,920	-	5	286,246
Not rated	302,094	21,926	-	5	324,025
Defaulted					
Non-performing	-	-	80,244	1,979	82,223
Other	-	-	47,461	246	47,707
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Residential mortgage loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,691,375	18,777	-	311	1,710,463
Standard grade	290,796	7,038	-	-	297,834
Low grade	319,076	60,994	-	533	380,603
Not rated	49,960	-	-	-	49,960
Defaulted					
Non-performing	-	-	23,239	3,455	26,694
Other	-	-	65,010	18,889	83,899
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Gold – pawn loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	75,483	541	-	-	76,024
Defaulted					
Non-performing	-	-	369	-	369
Other	-	-	4,378	-	4,378
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Finance lease receivables	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	19,375	1,375	-	20,750
Standard grade	7,659	213	-	7,872
Low grade	1,914	794	-	2,708
Not rated	72,002	3,424	683	76,109
Defaulted				
Non-performing	-	-	2,410	2,410
Other	-	-	238	238
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**110,087**

Accounts receivable	*As at 31 December 2018*	
	Stage 1	*Total*
Not rated	19,702	19,702
Balance at 31 December 2018	**19,702**	**19,702**

Guarantees issued	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	165,401	5,697	-	171,098
Standard grade	37,795	5,708	-	43,503
Low grade	17,791	466	-	18,257
Not rated	760,203	8	-	760,211
Defaulted				
Other	-	-	22,498	22,498
Balance at 31 December 2018	**981,190**	**11,879**	**22,498**	**1,015,567**

Letters of credit	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	31,381	2,553	-	33,934
Standard grade	4,844	-	-	4,844
Low grade	-	2,355	-	2,355
Not rated	876	-	-	876
Balance at 31 December 2018	**37,101**	**4,908**	**-**	**42,009**

Undrawn loan facilities	*As at 31 December 2018*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	185,926	165	-	186,091
Standard grade	22,951	150	-	23,101
Low grade	19,349	3,495	-	22,844
Not rated	44,350	466	61	44,877
Defaulted				
Other	-	-	1,340	1,340
Balance at 31 December 2018	**272,576**	**4,276**	**1,401**	**278,253**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position as at 31 December 2017, based on the Group's credit rating system.

31 December 2017	*Notes*	*Neither past due nor impaired*			*Past due or individually impaired*	*Total*
		High grade	*Standard grade*	*Sub-standard grade*		
Amounts due from credit institutions	8	1,216,343	-	-	-	1,216,343
Debt investment securities available-for-sale	9	1,613,558	-	-	-	1,613,558
Loans to customers:	10					
Commercial loans		1,820,670	275,044	6,193	310,606	2,412,513
Consumer loans		1,580,503	37,612	31,915	101,076	1,751,106
Micro and SME loans		1,547,233	105,302	30,019	93,490	1,776,044
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	-	-	2,075	67,940
		6,633,909	**446,919**	**87,910**	**551,380**	**7,720,118**
Finance lease receivables	10	48,069	12,161	2,063	5,393	67,686
Total		**9,511,879**	**459,080**	**89,973**	**556,773**	**10,617,705**

The following table shows the ratio of the loan portfolio to the market value of collateral held by the Group in respect of the portfolio. As at 31 December 2019, up to 72.86% of the collateral held has been re-valued within the last two years. For residential mortgage loans, in cases, where the collateral for a loan may not be officially registered until its construction is complete, respective loan is shown as unsecured, even though it is usually secured by the corporate guarantee of the construction company.

	As at 31 December 2019									
	Total gross carrying amount	*Unsecured*	*Loan to Value %*							
			less than 50%	*50%-80%*	*80% - 90%*	*90%-100%*	*100%-200%*	*200%-300%*	*300%-400%*	*more than 400%*
Commercial loans	3,929,443	341,826	588,389	866,246	165,358	185,995	676,067	184,026	231,606	689,930
ECL Coverage	2.31%	2.01%	0.45%	0.04%	0.56%	2.24%	9.89%	0.47%	0.46%	1.01%
Residential mortgage loans	3,066,683	49,727	766,251	1,599,275	479,140	86,572	66,568	9,160	821	9,169
ECL Coverage	0.29%	2.89%	0.05%	0.04%	0.19%	1.68%	4.97%	6.97%	1.83%	1.91%
Micro and SME loans	2,660,220	327,718	750,020	797,114	181,543	156,002	378,363	36,562	12,762	20,136
ECL Coverage	1.67%	7.43%	0.20%	0.26%	0.62%	0.77%	2.78%	4.10%	7.35%	6.64%
Consumer loans	2,085,108	1,159,510	387,116	322,747	93,823	46,122	73,502	547	359	1,382
ECL Coverage	3.49%	6.11%	0.02%	0.15%	0.37%	0.63%	0.82%	14.44%	0.56%	1.52%
Gold – pawn loans	85,540	-	2,810	20,994	52,695	2,701	6,284	1	10	45
ECL Coverage	0.30%	n/a	0.00%	0.03%	0.28%	0.78%	0.51%	0.00%	80.00%	80.00%
Loans to customers at amortised cost, gross	**11,826,994**	**1,878,781**	**2,494,586**	**3,606,376**	**972,559**	**477,392**	**1,200,784**	**230,296**	**245,558**	**720,662**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Prior to IFRS 9 transition, the credit risk assessment policy for non-past due and individually non-impaired financial assets was determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2017	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Consumer loans	42,625	15,044	12,321	28,907	98,897
Micro and SME loans	7,486	8,822	4,777	19,288	40,373
Residential mortgage loans	14,446	4,969	2,144	7,903	29,462
Commercial loans	1,487	452	208	227	2,374
Finance lease receivables	2,499	227	-	74	2,800
Total	**68,543**	**29,514**	**19,450**	**56,399**	**173,906**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2 with a loss allowance measured at an amount equal to lifetime expected credit losses.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during 2019:	*Amortized cost before modification*	*Net loss arising from Modification*
Commercial loans	35,186	(229)
Consumer loans	33,470	(3,332)
Micro and SME loans	77,075	(4,038)
Residential mortgage loans	51,776	(1,761)
Gold – pawn loans	-	-
	197,507	**(9,360)**

Financial assets modified during 2018:	*Amortized cost before modification*	*Net loss arising from Modification*
Commercial loans	9,529	-
Consumer loans	19,144	(2,065)
Micro and SME loans	21,852	(1,152)
Residential mortgage loans	5,883	(690)
Gold – pawn loans	-	-
	56,408	**(3,907)**

The table below shows the carrying amount for renegotiated financial assets, by class as at 31 December 2017:

	2017
Loans to customers:	
Commercial loans	103,365
Micro and SME loans	47,539
Residential mortgage loans	44,058
Consumer loans	39,318
Finance lease receivables	5,508
Total	**239,788**

The gross carrying value of loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses, are shown in the table below (no such loans identified as at 31 December 2018):

Financial assets modified since initial recognition, as at 31 December 2019:	*Gross Carrying Amount*	*Corresponding ECL*
Micro and SME loans	27	-
Residential mortgage loans	8	-
	35	**-**

(Thousands of Georgian Lari)

27. Risk Management (continued)

The geographical concentration of the Group's assets and liabilities is set out below:

	2019			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	1,020,942	841,866	296,397	2,159,205
Amounts due from credit institutions	1,570,497	30,433	12,744	1,613,674
Investment securities	792,613	827,974	140,436	1,761,023
Loans to customers and finance lease receivables	11,183,417	2,461	580,876	11,766,754
All other assets	934,451	35,144	52,972	1,022,567
	15,501,920	**1,737,878**	**1,083,425**	**18,323,223**
Liabilities:				
Client deposits and notes	7,478,013	808,626	1,850,056	10,136,695
Amounts owed to credit institutions	1,850,651	1,759,038	75,232	3,684,921
Debt securities issued	72,540	1,998,803	69,438	2,140,781
Lease Liability	89,382	-	5,136	94,518
All other liabilities	173,315	9,689	5,907	188,911
	9,663,901	**4,576,156**	**2,005,769**	**16,245,826**
Net balance sheet position	**5,838,019**	**(2,838,278)**	**(922,344)**	**2,077,397**

	2018				2017			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	789,187	315,081	116,256	1,220,524	475,133	929,676	96,845	1,501,654
Amounts due from credit institutions	1,258,544	26,982	19,665	1,305,191	1,023,145	182,699	10,499	1,216,343
Investment securities	1,020,244	779,097	133,212	1,932,553	980,876	559,468	73,415	1,613,759
Loans to customers and finance lease receivables	8,794,495	2,168	432,657	9,229,320	7,111,369	-	399,515	7,510,884
All other assets	746,276	43,937	45,786	835,999	702,272	4,271	71,533	778,076
	12,608,746	**1,167,265**	**747,576**	**14,523,587**	**10,292,795**	**1,676,114**	**651,807**	**12,620,716**
Liabilities:								
Client deposits and notes	6,071,067	658,852	1,466,632	8,196,551	5,356,374	663,234	1,104,258	7,123,866
Amounts owed to credit institutions	1,300,444	1,360,473	88,431	2,749,348	1,455,058	1,631,331	75,820	3,162,209
Debt securities issued	36,940	1,635,929	38,163	1,711,032	26,149	694,994	28,512	749,655
All other liabilities	120,474	9,715	5,439	135,628	98,511	571	3,985	103,067
	7,528,925	**3,664,969**	**1,598,665**	**12,792,559**	**6,936,092**	**2,990,130**	**1,212,575**	**11,138,797**
Net balance sheet position	**5,079,821**	**(2,497,704)**	**(851,089)**	**1,731,028**	**3,356,703**	**(1,314,016)**	**(560,768)**	**1,481,919**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. Minimum NBG requirement for average monthly liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by average liabilities for the same month (with certain exceptions established by the NBG). For the year ended 31 December 2019, 31 December 2018 and 31 December 2017 these ratios were as follows:

	2019, %	*2018, %*	*2017, %*
Average annual liquidity ratio*	35.7%	33.3%	39.8%
Maximum average monthly liquidity ratio*	38.5%	36.8%	44.8%
Minimum average monthly liquidity ratio*	31.1%	30.2%	34.4%

**Calculated according to the NBG requirements.*

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by customer deposits placed in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

In addition, on 15 May 2017 NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2019 was 136.7% (2018: 120.1%).

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	3,927,501	5,347,629	996,836	106,542	10,378,508
Amounts owed to credit institutions	2,001,097	516,867	1,153,537	787,759	4,459,260
Debt securities issued	73,144	761,606	1,453,124	334,625	2,622,499
Lease Liability	5,937	16,812	65,650	27,503	115,902
Derivative financial liabilities	4,826	5,823	187	-	10,836
Total undiscounted financial liabilities	**6,012,505**	**6,648,737**	**3,669,334**	**1,256,429**	**17,587,005**

Financial liabilities As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	3,126,421	4,388,790	765,904	79,108	8,360,223
Amounts owed to credit institutions	1,383,079	244,340	1,153,815	302,379	3,083,613
Debt securities issued	54,953	354,362	1,652,340	-	2,061,655
Derivative financial liabilities	10,574	995	-	-	11,569
Total undiscounted financial liabilities	**4,575,027**	**4,988,487**	**3,572,059**	**381,487**	**13,517,060**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Client deposits and notes	2,952,578	3,624,515	626,061	65,597	7,268,751
Amounts owed to credit institutions	1,321,995	538,270	962,370	917,642	3,740,277
Debt securities issued	15,036	140,508	749,631	-	905,175
Derivative financial liabilities	3,139	809	-	-	3,948
Total undiscounted financial liabilities	**4,292,748**	**4,304,102**	**2,338,062**	**983,239**	**11,918,151**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2019	504,195	250,739	790,631	145,972	1,691,537
31 December 2018	423,886	337,522	616,522	96,977	1,474,907
31 December 2017	398,504	192,724	329,458	103,244	1,023,930

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Additional Tier 1 capital notes are presented in "Over 5 years" bucket given the first call option date being no earlier than 5 years since issuance.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the years ended 31 December 2019, 2018 and 2017 sensitivity analysis did not reveal any significant potential effect on the Group's equity.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of other comprehensive income 2019*
GEL	64	4,207	5,806
EUR	(2)	(168)	-
USD	7	94	-

Currency	*Decrease in basis points 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of other comprehensive income 2019*
GEL	64	(4,207)	(5,806)
EUR	(2)	168	-
USD	7	(94)	-

Currency	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	251	1,019
EUR	(1)	(50)	(2)
USD	6	121	63

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	(251)	(1,019)
EUR	(1)	50	2
USD	6	(121)	(63)

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	443	(1,159)
EUR	1	(22)	-
USD	3	(73)	-

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	(443)	1,159
EUR	1	22	-
USD	3	73	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2019 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2019, year ended 31 December 2018 and year ended 31 December 2017, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2019		*2018*		*2017*	
EUR	7.9%	(308)	9.9%	(324)	12.0%	(2,487)
USD	6.4%	(2,915)	7.1%	10,877	8.9%	5,758

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2019, 31 December 2018 and 31 December 2017 is as follows:

	Effect on net interest income
2019	(40,014)
2018	(73,870)
2017	(46,527)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Emerging Risks

Information compiled from all the businesses is examined and processed in order to analyse, control and identify emerging risks.

The coronavirus (COVID-19) has been identified as an emerging risk, and the Group is monitoring its impact on the Group's business, customers and employees. There is uncertainty over whether this will develop into a pandemic and whether this will create a global slowdown. The Georgian economy is well-diversified, both by sector, and in terms of trading partner country dependence, however, if the virus leads to a global shutdown a significant negative impact on tourism in Georgia is expected. This may also impact other areas of the Georgian economy, such as real estate. It is too early to fully understand the impact this may have on the Group's business.

(Thousands of Georgian Lari)

28. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy, except for cash and short-term deposits for which fair value approximates to their carrying value:

31 December 2019	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	228,666	228,666
Land	-	-	*56,908*	*56,908*
Residential properties	-	-	*75,328*	*75,328*
Non-residential properties	-	-	*96,430*	*96,430*
Investment securities	2,316	1,758,312	395	1,761,023
Other assets – derivative financial assets	-	34,559	-	34,559
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,613,674	-	1,613,674
Loans to customers and finance lease receivables	-	-	11,917,877	11,917,877
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	10,836	-	10,836
Liabilities for which fair values are disclosed				
Client deposits and notes	-	10,137,502	-	10,137,502
Amounts owed to credit institutions	-	3,385,114	299,807	3,684,921
Debt securities issued	-	1,782,278	416,787	2,199,065
Lease liability	-	-	95,389	95,389

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	155,183	155,183
Land	-	-	*15,094*	*15,094*
Residential properties	-	-	*75,171*	*75,171*
Non-residential properties	-	-	*64,918*	*64,918*
Investment securities	-	1,932,158	395	1,932,553
Other assets – derivative financial assets	-	35,557	-	35,557
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,305,191	-	1,305,191
Loans to customers and finance lease receivables	-	-	9,199,809	9,199,809
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	11,569	-	11,569
Liabilities for which fair values are disclosed				
Client deposits and notes	-	8,192,491	-	8,192,491
Amounts owed to credit institutions	-	2,560,563	188,785	2,749,348
Debt securities issued	-	1,374,229	360,326	1,734,555

(Thousands of Georgian Lari)

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*202,534*	202,534
Land	-	-	*38,378*	*38,378*
Residential properties	-	-	*64,038*	*64,038*
Non-residential properties	-	-	*100,118*	*100,118*
Investment securities	-	1,613,558	201	1,613,759
Other assets – derivative financial assets	-	13,484	-	13,484
Assets for which fair values are disclosed				
Amounts due from credit institutions	-	1,216,343	-	1,216,343
Loans to customers and finance lease receivables	-	-	7,624,430	7,624,430
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	3,948	-	3,948
Liabilities for which fair values are disclosed				
Client deposits and notes	-	7,128,147	-	7,128,147
Amounts owed to credit institutions	-	2,518,086	644,123	3,162,209
Debt securities issued	-	468,536	294,702	763,238

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, forward foreign exchange contracts and option contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations, as well as standard option pricing models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and implied volatilities.

Trading securities and investment securities

Trading securities and a certain part of investment securities are quoted equity and debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Georgian Lari)

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	31 December 2016	Disposal	At 31 December 2017	Purchase	At 31 December 2018	At 31 December 2019
Level 3 financial assets						
Equity investment securities	295	(94)	201	194	395	395

Movements in level 3 non-financial assets measured at fair value

All investment properties are level 3. Reconciliations of their opening and closing amounts are provided in Note 11.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2019		2018		2017	
Level 3 financial assets						
Equity investment securities	395	+/- 59	395	+/- 59	201	+/- 30

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2019	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**228,666**						
Land	56,908	Market approach	Price per square metre	6 - 4,282 (493)	Square metres, land	23 - 18,000 (9,775)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	75,328	Market approach	Price per square metre	97 - 3,682 (1,219)	Square metres, building	18 - 372 (106)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	96,430						
	68,630	Market approach	Price	2 - 1,852,910 (79,950)	Square metres, land	20 - 73,575 (964)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	1 - 3,590 (503)	
	24,122	Income approach	Rent per square metere	2 - 62 (11)	Square metres, building	18 - 3,313 (1,763)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	15% - 100% (79%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	47 - 47 (47)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	3,678	Cost approach	Land price per square metre	1 - 727 (25)	Square metres, land	77 - 81,139 (9,832)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	64 - 791 (185)	Square metres, building	55 - 7,565 (1,324)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.*

(Thousands of Georgian Lari)

28. Fair Value Measurement (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2019, 31 December 2018 and 31 December 2017:

	31 December 2019		
	Amortised cost	*Fair value through OCI*	*Fair value through profit or loss*
Financial assets			
Amounts due from credit institutions	1,613,674	-	-
Loans to customers and finance lease receivables	11,766,754	-	-
Accounts receivable and other loans	2,585	-	-
Equity instruments	-	2,788	-
Debt instruments	-	1,758,235	-
Interest rate contracts	-	-	2,566
Foreign currency derivative financial instruments	-	-	31,993
Total:	**13,383,013**	**1,761,023**	**34,559**
Financial liabilities			
Client deposits and notes	10,136,695	-	-
Amounts owed to credit institutions	3,684,921	-	-
Debt securities issued	2,140,781	-	-
Trade and other payables (in other liabilities)	94,518	-	-
Interest rate contracts	-	-	1,914
Foreign currency derivative financial instruments	-	-	8,922
Total:	**16,056,915**	**-**	**10,836**

	31 December 2018			*31 December 2017*		
	Amortised cost	*Fair value through OCI*	*Fair value through profit or loss*	*Loans and receivables*	*Available-for sale*	*Fair value through profit or loss*
Financial assets						
Amounts due from credit institutions	1,305,191	-	-	1,216,343	-	-
Loans to customers and finance lease receivables	9,229,320	-	-	7,510,884	-	-
Accounts receivable and other loans	19,702	-	-	1,803	-	-
Equity instruments	-	466	-	-	201	-
Debt instruments	-	1,932,087	-	-	1,613,558	-
Interest rate contracts	-	-	12,636	-	-	8,869
Foreign currency derivative financial instruments	-	-	22,921	-	-	4,615
Total:	**10,554,213**	**1,932,553**	**35,557**	**8,729,030**	**1,613,759**	**13,484**
Financial liabilities						
Client deposits and notes	8,196,551	-	-	7,123,866	-	-
Amounts owed to credit institutions	2,749,348	-	-	3,162,209	-	-
Debt securities issued	1,711,032	-	-	749,655	-	-
Trade and other payables (in other liabilities)	19,393	-	-	27,482	-	-
Interest rate contracts	-	-	6,360	-	-	1,456
Foreign currency derivative financial instruments	-	-	5,209	-	-	2,492
Total:	**12,676,324**	**-**	**11,569**	**11,063,212**	**-**	**3,948**

(Thousands of Georgian Lari)

28. Fair Value Measurement (continued)

Fair value of financial instruments that are carried in the financial statements not at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, fair values of other smaller financial assets and financial liabilities, or cash and short-term deposits, fair values of which are materially close to their carrying values.

	Carrying value 2019	*Fair value 2019*	*Unrecognised gain (loss) 2019*
Financial assets			
Amounts due from credit institutions	1,613,674	1,613,674	-
Loans to customers and finance lease receivables	11,766,754	11,917,877	151,123
Financial liabilities			
Client deposits and notes	10,136,695	10,137,502	(807)
Amounts owed to credit institutions	3,684,921	3,684,921	-
Debt securities issued	2,140,781	2,199,065	(58,284)
Lease liability	94,518	95,389	(871)
Total unrecognised change in unrealised fair value			**91,161**

	Carrying value 2018	*Fair value 2018*	*Unrecognised gain (loss) 2018*	*Carrying value 2017*	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets						
Amounts due from credit institutions	1,305,191	1,305,191	-	1,216,343	1,216,343	-
Loans to customers and finance lease receivables	9,229,320	9,199,809	(29,511)	7,510,884	7,624,430	113,546
Financial liabilities						
Client deposits and notes	8,196,551	8,192,491	4,060	7,123,866	7,128,147	(4,281)
Amounts owed to credit institutions	2,749,348	2,749,348	-	3,162,209	3,162,209	-
Debt securities issued	1,711,032	1,734,555	(23,523)	749,655	763,238	(13,583)
Total unrecognised change in unrealised fair value			**(48,974)**			**95,682**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For financial assets and financial liabilities maturing in less than a year, it is assumed that the carrying amounts approximate to their fair value.

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	31 December 2019							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,538,123	621,082	-	-	-	-	-	2,159,205
Amounts due from credit institutions	1,570,495	30,670	-	-	-	-	12,509	1,613,674
Investment securities	299,241	1,235,464	4,840	4,054	64,495	105,190	47,739	1,761,023
Loans to customers and finance lease	-	1,670,752	803,830	1,578,589	3,324,687	1,700,478	2,688,418	11,766,754
Total	**3,407,859**	**3,557,968**	**808,670**	**1,582,643**	**3,389,182**	**1,805,668**	**2,748,666**	**17,300,656**
Financial liabilities								
Client deposits and notes	2,130,711	1,765,582	864,681	4,406,612	836,542	85,343	47,224	10,136,695
Amounts owed to credit institutions	263,975	1,731,425	122,857	355,504	472,232	388,883	350,045	3,684,921
Debt securities issued	-	72,093	638,293	87,636	300,008	879,167	163,584	2,140,781
Lease liability	-	5,879	5,687	10,471	33,555	21,438	17,488	94,518
Total	**2,394,686**	**3,574,979**	**1,631,518**	**4,860,223**	**1,642,337**	**1,374,831**	**578,341**	**16,056,915**
Net	**1,013,173**	**(17,011)**	**(822,848)**	**(3,277,580)**	**1,746,845**	**430,837**	**2,170,325**	**1,243,741**
Accumulated gap	**1,013,173**	**996,162**	**173,314**	**(3,104,266)**	**(1,357,421)**	**(926,584)**	**1,243,741**	

	31 December 2018							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	1,053,012	167,512	-	-	-	-	-	1,220,524
Amounts due from credit institutions	1,239,365	45,185	976	7,874	-	-	11,791	1,305,191
Investment securities	751,172	941,275	42,499	37,052	108,072	35,115	17,368	1,932,553
Loans to customers and finance lease	-	1,407,587	641,375	1,394,176	2,491,787	1,335,320	1,959,075	9,229,320
Total	**3,043,549**	**2,561,559**	**684,850**	**1,439,102**	**2,599,859**	**1,370,435**	**1,988,234**	**13,687,588**
Financial liabilities								
Client deposits and notes	1,588,304	1,525,213	732,943	3,603,586	654,967	52,704	38,834	8,196,551
Amounts owed to credit institutions	118,693	1,268,990	81,927	178,106	526,983	413,146	161,503	2,749,348
Debt securities issued	-	54,524	162,581	173,755	566,570	753,602	-	1,711,032
Total	**1,706,997**	**2,848,727**	**977,451**	**3,955,447**	**1,748,520**	**1,219,452**	**200,337**	**12,656,931**
Net	**1,336,552**	**(287,168)**	**(292,601)**	**(2,516,345)**	**851,339**	**150,983**	**1,787,897**	**1,030,657**
Accumulated gap	**1,336,552**	**1,049,384**	**756,783**	**(1,759,562)**	**(908,223)**	**(757,240)**	**1,030,657**	

	31 December 2017							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	743,848	757,806	-	-	-	-	-	1,501,654
Amounts due from credit institutions	1,005,631	182,699	5,006	12,508	-	-	10,499	1,216,343
Investment securities	837,933	641,380	2,910	49,962	20,812	58,916	1,846	1,613,759
Loans to customers and finance lease	-	1,241,760	612,064	1,392,644	1,952,563	1,029,681	1,282,172	7,510,884
Total	**2,587,412**	**2,823,645**	**619,980**	**1,455,114**	**1,973,375**	**1,088,597**	**1,294,517**	**11,842,640**
Financial liabilities								
Client deposits and notes	1,678,608	1,262,626	617,035	2,955,253	538,844	39,351	32,149	7,123,866
Amounts owed to credit institutions	204,511	1,110,011	146,966	336,673	501,056	303,325	559,667	3,162,209
Debt securities issued	-	14,911	96,995	35,241	602,508	-	-	749,655
Total	**1,883,119**	**2,387,548**	**860,996**	**3,327,167**	**1,642,408**	**342,676**	**591,816**	**11,035,730**
Net	**704,293**	**436,097**	**(241,016)**	**(1,872,053)**	**330,967**	**745,921**	**702,701**	**806,910**
Accumulated gap	**704,293**	**1,140,390**	**899,374**	**(972,679)**	**(641,712)**	**104,209**	**806,910**	

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category. To match the coverage of short-term borrowings from the NBG with the investment securities pledged to secure it, those securities are included in the On demand category.

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities (continued)

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

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

As at 31 December 2019 client deposits and notes amounted to GEL 10,136,695 (2018: GEL 8,196,551, 2017: GEL 7,123,866) and represented 62% (2018: 64%, 2017: 64%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2019 amounts owed to credit institutions amounted to GEL 3,684,921 (2018: GEL 2,749,348, 2017: GEL 3,162,209) and represented 23% (2018: 21%, 2017: 28%) of total liabilities. As at 31 December 2019 debt securities issued amounted to GEL 2,140,781 (2018: GEL 1,711,032, 2017: GEL 749,655) and represented 13% (2018: 13%, 2017: 7%) of total liabilities.

In the Board's opinion, liquidity is sufficient to meet the Group's present requirements.

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled, except for current accounts which are included in up to 1 year time bucket, noting that respective contractual maturity may expand over significantly longer periods:

	31 December 2019		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	2,159,205	-	2,159,205
Amounts due from credit institutions	1,601,165	12,509	1,613,674
Investment securities	1,543,599	217,424	1,761,023
Loans to customers and finance lease	4,053,171	7,713,583	11,766,754
Accounts receivable and other loans	2,585	-	2,585
Prepayments	37,141	13,976	51,117
Inventories	5,983	-	5,983
Investment properties	-	228,666	228,666
Right of use assets	-	95,990	95,990
Property and equipment	-	339,726	339,726
Goodwill	-	33,453	33,453
Intangible assets	-	95,471	95,471
Income tax assets	75	207	282
Other assets	120,061	12,949	133,010
Assets held for sale	36,284	-	36,284
Total assets	**9,559,269**	**8,763,954**	**18,323,223**
Client deposits and notes	9,167,586	969,109	10,136,695
Amounts owed to credit institutions	2,473,761	1,211,160	3,684,921
Debt securities issued	798,022	1,342,759	2,140,781
Lease liability	22,037	72,481	94,518
Accruals and deffered income	39,827	10,237	50,064
Income tax liabilities	1,563	36,355	37,918
Other liabilities	100,929	-	100,929
Total liabilities	**12,603,725**	**3,642,101**	**16,245,826**
Net	**(3,044,456)**	**5,121,853**	**2,077,397**

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities (continued)

	31 December 2018			*31 December 2017*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,220,524	-	1,220,524	1,501,654	-	1,501,654
Amounts due from credit institutions	1,293,400	11,791	1,305,191	1,205,844	10,499	1,216,343
Investment securities	1,771,998	160,555	1,932,553	1,532,185	81,574	1,613,759
Loans to customers and finance lease	3,443,138	5,786,182	9,229,320	3,246,468	4,264,416	7,510,884
Accounts receivable and other loans	19,702	-	19,702	1,803	-	1,803
Prepayments	32,971	17,097	50,068	27,098	28,855	55,953
Inventories	8,787	-	8,787	16,328	-	16,328
Investment properties	-	155,183	155,183	-	202,534	202,534
Property and equipment	-	312,017	312,017	-	305,474	305,474
Goodwill	-	33,453	33,453	-	33,453	33,453
Intangible assets	-	76,569	76,569	-	50,948	50,948
Income tax assets	19,234	123	19,357	696	130	826
Other assets	103,646	14,809	118,455	65,924	44,833	110,757
Assets held for sale	42,408	-	42,408	-	-	-
Total assets	**7,955,808**	**6,567,779**	**14,523,587**	**7,598,000**	**5,022,716**	**12,620,716**
Client deposits and notes	7,450,046	746,505	8,196,551	6,513,522	610,344	7,123,866
Amounts owed to credit institutions	1,647,716	1,101,632	2,749,348	1,798,161	1,364,048	3,162,209
Debt securities issued	390,860	1,320,172	1,711,032	147,147	602,508	749,655
Accruals and deffered income	44,730	-	44,730	37,658	-	37,658
Income tax liabilities	987	27,846	28,833	8,753	11,342	20,095
Other liabilities	60,739	1,326	62,065	40,138	5,176	45,314
Total liabilities	**9,595,078**	**3,197,481**	**12,792,559**	**8,545,379**	**2,593,418**	**11,138,797**
Net	**(1,639,270)**	**3,370,298**	**1,731,028**	**(947,379)**	**2,429,298**	**1,481,919**

(Thousands of Georgian Lari)

30. Related Party Disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	31 December 2019			*31 December 2018*			*31 December 2017*		
	The parent	***Entities under common control***	***Key management personnel****	***The parent***	***Entities under common control***	***Key management personnel****	***The parent***	***Entities under common control***	***Key management personnel****
Loans outstanding at 1 January, gross	**2,168**	**407**	**1,654**	**8,981**	**103,141**	**2,358**	**9,171**	**64,772**	**1,735**
Loans issued during the year	675	1,730	6,347	2,168	609	2,768	-	148,145	3,259
Loan repayments during the year	(701)	(380)	(3,500)	(8,981)	(1,726)	(2,474)	-	(76,070)	(3,236)
Other movements**	319	136	2,217	-	(101,617)	(998)	(190)	(33,706)	600
Loans outstanding at 31 December, gross	**2,461**	**1,893**	**6,718**	**2,168**	**407**	**1,654**	8,981	**103,141**	**2,358**
Less: allowance for impairment at 31 December	-	-	(12)	-	-	(1)	-	(3)	(1)
Loans outstanding at 31 December, net	**2,461**	**1,893**	**6,706**	**2,168**	**407**	**1,653**	8,981	**103,138**	**2,357**
Interest income on loans	147	138	304	25	2,992	62	-	5,949	147
Expected credit loss	-	-	(30)	-	-	-	-	-	(1)
Deposits at 1 January	**46,012**	**32,437**	**14,472**	**42,720**	**396,712**	**25,717**	**202,642**	**207,674**	**15,480**
Deposits received during the year	18,274	29,666	21,222	3,299	2,701	9,363	-	238,818	18,938
Deposits repaid during the year	(24,877)	(9,952)	(14,402)	-	(25,826)	(774)	(133,051)	(14,983)	(11,262)
Other movements**	95	(1,478)	9,183	(7)	(341,150)	(19,834)	(26,871)	(34,797)	2,561
Deposits at 31 December	**39,504**	**50,673**	**30,475**	**46,012**	**32,437**	**14,472**	**42,720**	**396,712**	**25,717**
Interest expense on deposits	(1,761)	(720)	(1,117)	(989)	(2,579)	(410)	(6,546)	(4,316)	(374)
Borrowings at 1 January	**-**	**-**	**-**	**386,508**	**-**	**-**	**394,224**	**-**	**-**
Borrowings received during the year	-	-	-	-	-	-	-	-	-
Borrowings repaid during the year	-	-	-	(372,110)	-	-	(25,464)	-	-
Other movements**	-	-	-	(14,398)	-	-	17,748	-	-
Borrowings at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**386,508**	**-**	**-**
Interest expense on borrowings	-	-	-	(5,620)	-	-	(25,823)	-	-
Loss from early repayments of borrowings	-	-	-	(10,432)	-	-	-	-	-
Debt securities at 1 January	**-**	**472**	**-**	**-**	**32,066**	**-**	**-**	**-**	**-**
Debt securities received during the period	35,308	-	-	-	-	-	-	32,066	-
Debt securities repaid during the period	(1,050)	-	-	-	-	-	-	-	-
Other movements**	1,006	117	-	-	(31,594)	-	-	-	-
Debt securities at 31 December	**35,264**	**589**	**-**	**-**	**472**	**-**	**-**	**32,066**	**-**
Interest expense on debt securities issued	(1,150)	(37)	-	-	(10,401)	-	-	-	-
Commitments and guarantees issued	-	-	-	-	-	-	-	12,453	-

****Key management personnel includes members of BOG's Supervisory Board, BOG's Management Board and Key Executives of the Group.***

*****In 2018, other movements mainly relate to the Demerger. In 2019, other movements for the key management personnel accounts mainly relate to the net effect of the change of the key management members.***

Compensation of key management comprised the following:

	2019	2018	2017
Salaries and other benefits	13,041	4,504	7,372
Share-based payments compensation *	39,553	56,711	33,635
Social security costs	-	69	82
Total key management compensation	**52,594**	**61,284**	**41,089**

****In 2019, share-based compensation included an amount of GEL 3,985 (2018: 28,347, 2017: nil) for key management personnel reflected in the non-recurring items.***

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2019 was 22 (31 December 2018: 16, 31 December 2017: 19).

(Thousands of Georgian Lari)

31. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank.

During the year ended 31 December 2019, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements. As at 31 December 2019, 31 December 2018 and 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2019	*2018*	*2017*
Tier 1 capital	1,887,571	1,379,953	1,141,845
Tier 2 capital	616,113	502,355	501,689
Total capital	**2,503,684**	**1,882,308**	**1,643,534**
Risk-weighted assets	**13,868,169**	**11,338,660**	**9,192,078**
Tier 1 capital ratio	**13.6%**	**12.2%**	**12.4%**
Total capital ratio	**18.1%**	**16.6%**	**17.9%**
Min Requirement for Tier 1 capital ratio	**12.2%**	**11.4%**	**9.9%**
Min Requirement for Total capital ratio	**17.1%**	**15.9%**	**12.4%**

NBG (Basel II/III) capital adequacy ratio

Effective 30 June 2014, the NBG required banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II/III requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
Total capital	**1,643,534**
Risk-weighted assets	**11,115,315**
Total capital ratio	**14.8%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

(Thousands of Georgian Lari)

31. Capital Adequacy (continued)

NBG capital adequacy ratio

The NBG required banks to maintain a minimum capital adequacy ratio of 9.6% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Core capital	787,225
Supplementary capital	787,225
Less: Deductions from capital	(116,716)
Total regulatory capital	**1,457,734**
Risk-weighted assets	**11,004,699**
Total capital adequacy ratio	**13.2%**

Core capital comprises share capital, additional paid-in capital and retained earnings (without current period profits), less intangible assets and goodwill. Supplementary capital includes subordinated long-term debt, current period profits and general loss provisions. Deductions from the capital include investments in subsidiaries. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2019, 31 December 2018 and 31 December 2017, was as follows:

	2019	*2018*	*2017*
Tier 1 capital	2,051,119	1,719,989	1,471,714
Less: Deductions - Goodwill	(33,453)	(33,340)	(33,340)
Tier 2 capital	906,275	580,408	560,771
Less: Deductions from capital	(10)	(9)	(9)
Total capital	**2,923,931**	**2,267,048**	**1,999,136**
Risk-weighted assets	**15,110,852**	**12,014,414**	**9,750,829**
Total capital ratio	19.3%	18.9%	20.5%
Tier 1 capital ratio	13.4%	14.0%	14.8%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**