JSC Credo Bank

Financial statements

Year ended 31 December 2019
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
JSC Credo Bank

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and its financial performance and its 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 financial statements* section of our report. We are independent of the Bank 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.

Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in Bank's 2019 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the financial statements.

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

30 April 2020

Statement of financial position

As at 31 December 2019

(Thousands of Georgian Lari)

	Note	2019	2018
Assets			
Cash and cash equivalents	5	76,941	52,211
Amounts due from credit institutions	6	23,811	17,142
Derivative financial assets	7	1,160	14
Loans to customers	8	834,500	679,743
Investment securities	9	29,051	–
Right-of-use assets	12	12,230	–
Property and equipment	10	10,125	8,178
Intangible assets	11	8,697	7,497
Other financial assets	14	6,492	7,344
Other non-financial assets	15	7,225	4,494
Total assets		**1,010,232**	**776,623**
Liabilities			
Derivative financial liabilities	7	394	1,235
Customer accounts	18	96,738	28,946
Current income tax liabilities	13	4,560	1,216
Lease liabilities	12	13,226	–
Loans from banks and other financial institutions	16, 17	701,954	585,667
Deferred income tax liabilities	13	2,396	2,537
Other liabilities	19	16,222	14,078
Subordinated debt	16, 17	22,054	13,467
Total liabilities		**857,544**	**647,146**
Equity			
Share capital	20	4,400	4,400
Other reserves		(92)	(80)
Retained earnings		148,380	125,157
Total equity		**152,688**	**129,477**
Total liabilities and equity		**1,010,232**	**776,623**

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

Zaal Pirtskhelava Chief Executive Officer

Irakli Zatiashvili Chief Financial Officer

30 April 2020

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Note	*2019*	*2018*
Interest income calculated using effective interest method			
Loans to customers		187,221	154,979
Cash and balances with banks		2,121	2,288
Investment securities		1,450	–
		190,792	**157,267**
Interest expense			
Loans from banks and other financial institutions		(64,815)	(55,030)
Subordinated debt		(2,197)	(940)
Customer accounts		(2,108)	(127)
Lease liabilities		(1,160)	–
		(70,280)	**(56,097)**
Net interest income		**120,512**	**101,170**
Credit loss expense on financial assets	8	(15,518)	(12,821)
Net interest income after credit loss expense		**104,994**	**88,349**
Fee and commission income	22	22,463	20,849
Fee and commission expense	23	(5,085)	(4,397)
Net fee and commission income		**17,378**	**16,452**
Net gains/(losses) from foreign currencies	24	2,057	(993)
Other operating income	25	1,104	562
Other operating expense	26	(1,464)	(450)
Net non-interest income		**19,075**	**15,571**
Personnel expenses	27	(59,251)	(53,261)
Other general administrative expenses	28	(19,213)	(22,257)
Depreciation and amortization	10, 11, 12	(9,597)	(3,806)
Non-interest expenses		**(88,061)**	**(79,324)**
Profit before income tax expense		**36,008**	**24,596**
Income tax expense	13	(6,469)	(4,405)
Profit for the year		**29,539**	**20,191**
Other comprehensive loss not to be reclassified to profit or loss in subsequent period − fair value changes on financial liabilities designated at fair value through profit or loss due to the Bank's own credit risk		(12)	(80)
Total comprehensive income for the year		**29,527**	**20,111**

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Share capital	*Retained earnings*	*Fair value reserves*	*Total equity*
1 January 2018	**4,400**	**115,492**	**–**	**119,892**
Profit for the year	–	20,191	–	**20,191**
Other comprehensive loss for the year	–	–	(80)	**(80)**
Total comprehensive income for the year	**–**	**20,191**	**(80)**	**20,111**
Dividends (Note 20)	–	(10,526)	–	**(10,526)**
31 December 2018	**4,400**	**125,157**	**(80)**	**129,477**
Profit for the year	–	29,539	–	**29,539**
Other comprehensive loss for the year	–	–	(12)	**(12)**
Total comprehensive income for the year	**–**	**29,539**	**(12)**	**29,527**
Dividends (Note 20)	–	(6,316)	–	**(6,316)**
31 December 2019	**4,400**	**148,380**	**(92)**	**152,688**

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2019

(Thousands of Georgian Lari)

	Note	*2019*	*2018*
Cash flows from operating activities			
Interest received		193,400	157,175
Interest paid		(70,716)	(52,883)
Fees and commissions received		23,295	20,054
Fees and commissions paid		(5,085)	(4,368)
Realized gains from dealing in foreign currencies		2,051	2,344
Other income received		1,122	445
Other expense paid		(1,042)	(450)
Personnel expenses paid		(60,485)	(46,875)
Other operating expenses paid		(19,304)	(21,217)
Cash flows from operating activities before changes in operating assets and liabilities		**63,236**	**54,225**
Net (increase)/decrease in operating assets			
Derivative financial assets		57	1,182
Amounts due from credit institutions		(5,142)	2,982
Loans to customers		(167,473)	(116,871)
Other financial assets		(3,071)	(1,441)
Net increase/(decrease) in operating liabilities			
Customer accounts		67,364	13,396
Other financial liabilities		563	487
Net cash flows used in operating activities before income tax		**(44,466)**	**(46,040)**
Income tax paid		(2,664)	–
Net cash used in operating activities		**(47,130)**	**(46,040)**
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(7,271)	(5,260)
Acquisition of investment securities		(29,051)	–
Proceeds from sale of property and equipment		436	64
Acquisition of new businesses		–	(47,532)
Net cash used in investing activities		**(35,886)**	**(52,728)**
Cash flows from financing activities			
Proceeds from borrowings and subordinated loans	17	455,728	309,402
Repayment of borrowings and subordinated loans	17	(338,723)	(200,077)
Repayment of lease liabilities		(4,006)	–
Dividends paid	20	(6,316)	(10,526)
Net cash from financing activities		**106,683**	**98,799**
Net increase in cash and cash equivalents		**23,667**	**31**
Effect of exchange rates changes on cash and cash equivalents		1,063	(605)
Cash and cash equivalents, beginning	5	52,211	52,785
Cash and cash equivalents, ending	5	**76,941**	**52,211**

The accompanying notes on pages 5 to 50 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Organization and operations

JSC Credo Bank (the "Bank") was established in 2007 to provide sustainable lending services to those individual entrepreneurs who are not able to access credit facilities through the conventional banking system. The Bank supports the development of the private economy of Georgia by providing credit and related services to micro, small and medium-sized entrepreneurs and companies. On 20 March 2017 the Bank received banking license from the National Bank of Georgia (the "NBG"). The Bank's company identification code is 205232238. The legal address of the Bank is 27, Revaz Tabukashvili Street, Tbilisi, Georgia.

Shareholders

Shareholding structure of the Bank as at 31 December 2019 was as follows:

Shareholder	***Ownership %***
Access Microfinance Holding AG	60.20%
Triodos SICAV II (Triodos Microfinance Fund)	9.90%
Legal Owner Triodos funds B.V. in its capacity as legal owner of Triodos Fair Share Fund	9.90%
ResponsAbility Participations AG	9.34%
ResponsAbility SICAV (Lux) − responsAbility SICAV (Lux) Microfinance Leaders Fund	1.87%
ResponsAbility Global Micro and SME Finance Fund	8.79%

Shareholding structure of the Bank as at 31 December 2018 was as follows:

Shareholder	***Ownership %***
Access Microfinance Holding AG	60.20%
Triodos SICAV II (Triodos Microfinance Fund)	9.90%
Triodos Custody B.V., Triodos Fair Share Fund	9.90%
ResponsAbility Participations AG	9.34%
ResponsAbility SICAV (Lux) − responsAbility SICAV (Lux) Microfinance Leaders Fund	1.87%
ResponsAbility Micro and SME Finance Fund	8.79%

Ownership, voting and dividend rights among shareholders are allocated in proportion to their ordinary shares held in the Bank.

As at 31 December 2018 and 2019 the Bank's parent and ultimate controlling party with 60.2% of the voting rights is Joint Stock Company Access Microfinance Holding AG, Germany.

The supreme governing body of the Bank is the General Meeting of Shareholders. The supervision of the Bank's operations is conducted by the Supervisory Board, members of which are appointed by the General Meeting of Shareholders. Daily management of the Bank is carried out by the Management Board appointed by the Supervisory Board.

Business environment

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

Refer to Note 33 for discussion on macroeconomic situation development in Georgia in 2020 and its impact on the Bank.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. Derivative financial instruments have been measured at fair value.

Bank's functional and presentation currency is the Georgian Lari (GEL). Financial information is presented in GEL rounded to the nearest thousands, **except for per share amounts** and unless otherwise indicated.

(Thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes 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 standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases').On adoption of IFRS 16, the Bank 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, discounted using the Bank's incremental borrowing rates as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was in a range of 3.5%-12.34% depending on the terms of the lease.

Right-of-use asset was measured on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid amounts recognized immediately before the date of initial application. As a result, the Bank did not recognize any transition effect on its retained earnings on 1 January 2019. The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**2,982**
Weighted average incremental borrowing rate as at 1 January 2019	9.87%
Discounted operating lease commitments at 1 January 2019	**2,120**
Less:	
Commitments relating to short-term leases	(139)
Add:	
Payments in optional periods not recognised as at 31 December 2018	10,829
Lease liabilities as at 1 January 2019	**12,810**

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019 right-of-use assets and lease liabilities of GEL 12,810 were recognized in the statement of financial position.

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

<u>Right-of-use assets</u>

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

<u>Lease liabilities</u>

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

<u>Short-term leases and leases of low value assets</u>

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to certain leases of assets that are considered of low value (i.e., below GEL 15 thousand). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.
The Interpretation specifically addresses the following:

- 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 Bank 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.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements. Upon adoption of the Interpretation, the Bank considered whether it has any uncertain tax positions. The Interpretation did not have an impact on the financial statements of the Bank.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Bank's current practice is in line with these amendments, they had no impact on the financial statements of the Bank. **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, call deposits, amounts due from the National Bank of Georgia, excluding mandatory reserves, unrestricted current accounts and short-term deposits held with banks, with maturities of three months or less from the origination date that are subject to insignificant risk of changes in their fair value.

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortized cost and represent interest bearing assets.
The Bank's ability to withdraw these deposits is restricted by the regulation and hence they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is presented within amounts due from credit institutions in the statement of financial position.

Fair value measurement

The Bank measures financial instruments, such as derivatives, at fair value at each balance sheet date.

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.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Bank. 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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (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

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation option is applied.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Amounts due from credit institutions, loans to customers and investment securities at amortised cost

The Bank only measures amounts due from credit institutions, loans to customers, investment securities and other financial investments 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 payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages s of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- 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);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Undrawn loan commitments

The Bank issues loan commitments. Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements under IFRS 9.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

Renegotiated loans

The Bank will seek to restructure loans, rather than to take possession of collateral where a client has failed to maintain the agreed repayment schedule due to objective changes in circumstances but is deemed to be able to repay the loan with a modified repayment schedule.

The Bank 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, with the difference 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 loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 until customer fully repays amount overdue.

Derecognition of financial assets and liabilities

Financial assets

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

- The rights to receive cash flows from the asset have expired;
- The Bank 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 Bank 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.

Write-off

The Bank writes off assets deemed to be uncollectible, usually after 180 days past due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event. After write off the Bank may continue loan recovery processes with all available legal means.

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 profit or loss.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, for the purposes of mitigating currency risk, the Bank enters into various derivative financial instruments including foreign currency forwards and cross currency swaps (back to back loans) in the foreign exchange and capital markets.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss within net gains/(losses) from foreign currencies.

Although the Bank has derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ► The normal course of business;
- ► The event of default; and
- ► The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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. Borrowings are included in Loans from banks and other financial institutions and Subordinated loans and represent amounts due to the local banks, foreign financial institutions and international financial institutions. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

If the Bank 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 recognized in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Georgian tax code.

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholder recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the asset and 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.

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

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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 begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Leasehold improvements	2
Furniture, fixtures and equipment	2-5
IT and computer equipment	5
Motor vehicles	10

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

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

Intangible assets

Intangible assets include customer relations (recognized in a business combination), licenses, core banking software and other software. Licenses represent rights of usage of various software. Core banking software represents cost of accounting and loan portfolio management software. Other software includes internally developed software and other purchased software.

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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is expensed to profit or loss as incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognized when the Bank 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.

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.

Dividends

Dividends are recognized 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 financial statements are authorized for issue.

Contingencies

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost by applying the EIR to the gross carrying amount of financial assets other than credit-impaired. EIR 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 Bank 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 revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two 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 as respective performance obligations are satisfied. These fees include commission income from life insurance and other service fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from separate transactions done by customer − are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligations are recognized after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Georgian Lari, which is the Bank’s functional currency.

Transactions in foreign currencies are recorded in the foreign currency and same time in functional currency converted at the rate of transaction date exchange rate of National Bank of Georgia.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate existing at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss within net gains/(losses) from foreign currencies.

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.

Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank of Georgia exchange rate on the date of the transaction are included in Net gains/losses from foreign currencies.

The official National Bank of Georgia exchange rates at 31 December 2019 and 31 December 2018 were 2.8667 GEL and 2.6766 GEL to 1 USD, respectively.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective, with no material effect on the financial statements expected:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- *Interest Rate Benchmark Reform*: Amendments to IFRS 9, IAS 39 and IFRS 7.

4. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgments

Leases − determining the lease term of contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank did not recognize lease liability for the portion of lease payments subject to termination option in periods over 3-5 years (depending on the nature of the underlying assets), which represents a significant judgment. Refer to Note 12.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the 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 judgment is required in establishing fair values. Please refer to Note 31.

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in statement of financial position at 31 December 2019 was GEL 10,885 (2018 − GEL 9,506). More details are provided in Notes 8 and 30.

(Thousands of Georgian Lari)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019	*2018*
Cash on hand	32,177	22,490
Current accounts with the NBG	10,714	11,013
Current accounts with other credit institutions	34,050	8,708
Time deposits with credit institutions up to 90 days	–	10,000
Cash and cash equivalents	**76,941**	**52,211**

As at 31 December 2019, all cash and cash equivalents relate to stage 1 of ECL assessment. ECLs are not material. Most of current accounts are placed with BB- rated banks as at 31 December 2019 and 2018. As at 31 December 2019, current accounts and time deposits with credit institutions denominated in USD and GEL represent 50.23% and 25.49% of total current and time deposits, respectively (31 December 2018: USD 12.76% and GEL 71.12%).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2019	*2018*
Obligatory reserve with the NBG	23,811	17,142
Amounts due from credit institutions	**23,811**	**17,142**

The Bank is required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% to 25% (2018: 5% to 25%) of the average of funds attracted from customers and non-resident financial institutions for the appropriate two-week period in GEL and foreign currencies. The Bank earns 1.25% (USD) and 9% (GEL) on these deposits (2018: 0.5% (USD) and 6.5% (GEL)).

7. Derivative financial instruments

The Bank enters into derivative financial instruments to mitigate currency risk (Note 30). 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 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			*2018*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign currency contracts						
Cross-currency swaps − domestic	14,339	963	–	935	14	–
Cross-currency swaps − foreign	15,772	197	394	13,528	–	1,235
Total derivative assets/liabilities		**1,160**	**394**		**14**	**1,235**

Contracts are concluded with Georgian and foreign entities.

As of 31 December 2019, and 2018, the Bank has positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates on specified notional amounts.

(Thousands of Georgian Lari)

8. Loans to customers

Loans to customers' breakdown per sectors was as follows:

	2019	*2018*
Agro loans	440,514	341,012
Urban loans	281,951	253,267
Tourism loans	48,889	31,331
Other	74,582	63,639
Gross loans to customers	**845,936**	**689,249**
Less: expected credit losses	(11,436)	(9,506)
Loans to customers	**834,500**	**679,743**

For the purpose of ECL assessment, the Bank's loan portfolio is divided by business and consumer segments. Business lending is further divided by micro and SME subsegments, which are aggregated by borrower's income source in agro, tourism and urban businesses. Consumer lending is divided by consumer and pawnshop loans. The Bank applied the following segmentation for assessment of ECL of loans to customers based on credit risk profile:

	2019	*2018*
Agro, tourism and urban instant approval micro loans	239,892	219,185
Agro micro loans	214,618	188,351
Agro, tourism and urban SME loans	169,188	132,648
Urban micro loans	142,182	112,155
Consumer loans	58,264	31,919
Tourism micro loans	17,864	390
Pawnshop loans	3,928	4,601
Gross loans to customers	**845,936**	**689,249**
Less: expected credit losses	(11,436)	(9,506)
Loans to customers	**834,500**	**679,743**

The Bank provides loans in local currency, USD and EUR. 90% of the gross loan portfolio is denominated in local currency (2018: 88%).

Expected credit losses on loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2019 is as follows:

Agro, tourism and urban instant approval micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2019	**216,635**	**1,342**	**1,206**	**2**	**219,185**
New assets originated or purchased	351,660	–	–	–	**351,660**
Assets repaid	(311,431)	(786)	(267)	(2)	**(312,486)**
Transfers to Stage 1	621	(552)	(69)	–	**–**
Transfers to Stage 2	(5,704)	5,788	(84)	–	**–**
Transfers to Stage 3	–	(4,044)	4,044	–	**–**
Amounts written off	–	–	(7,240)	–	**(7,240)**
Foreign exchange and other movements[1]	(14,129)	(527)	3,429	–	**(11,227)**
At 31 December 2019	**237,652**	**1,221**	**1,019**	**–**	**239,892**

[1] Other movements also include change in accrued interest and transfers between loan portfolio segments

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Agro, tourism and urban instant approval micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**1,476**	**450**	**931**	**–**	**2,857**
New assets originated or purchased	2,074	–	–	–	**2,074**
Assets repaid	(3,460)	(137)	(43)	(2)	**(3,642)**
Transfers to Stage 1	17	(13)	(4)	–	**–**
Transfers to Stage 2	(2,336)	2,357	(21)	–	**–**
Transfers to Stage 3	–	(3,120)	3,120	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	2,528	988	2,131	2	**5,649**
Amounts written off	–	–	(7,240)	–	**(7,240)**
Foreign exchange and other movements	1,540	(76)	1,974	–	**3,438**
At 31 December 2019	**1,839**	**449**	**848**	**–**	**3,136**

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	**175,579**	**11,810**	**937**	**25**	**188,351**
New assets originated or purchased	213,937	–	–	–	**213,937**
Assets repaid	(185,497)	(1,926)	(128)	(2)	**(187,553)**
Transfers to Stage 1	1,067	(957)	(110)	–	**–**
Transfers to Stage 2	(3,914)	4,177	(263)	–	**–**
Transfers to Stage 3	(28)	(4,036)	4,064	–	**–**
Amounts written off	–	–	(5,217)	(35)	**(5,252)**
Foreign exchange and other movements	2,495	462	2,163	15	**5,135**
At 31 December 2019	**203,639**	**9,530**	**1,446**	**3**	**214,618**

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**1,238**	**1,082**	**629**	**–**	**2,949**
New assets originated or purchased	1,505	–	–	–	**1,505**
Assets repaid	(2,513)	(308)	(49)	(11)	**(2,881)**
Transfers to Stage 1	27	(24)	(3)	–	**–**
Transfers to Stage 2	(1,313)	1,340	(27)	–	**–**
Transfers to Stage 3	(19)	(2,537)	2,556	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	1,191	1,112	3,066	46	**5,415**
Amounts written off	–	–	(5,217)	(35)	**(5,252)**
Foreign exchange and other movements	1,306	479	6	–	**1,791**
At 31 December 2019	**1,422**	**1,144**	**961**	**–**	**3,527**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	**126,889**	**5,605**	**68**	**86**	**132,648**
New assets originated or purchased	133,303	–	–	–	**133,303**
Assets repaid	(98,732)	(1,139)	(118)	(7)	**(99,996)**
Transfers to Stage 1	3,396	(3,318)	(78)	–	**–**
Transfers to Stage 2	(6,094)	6,190	(96)	–	**–**
Transfers to Stage 3	–	(1,604)	1,604	–	**–**
Amounts written off	–	–	(1,387)	(65)	**(1,452)**
Foreign exchange and other movements	3,919	225	512	29	**4,685**
At 31 December 2019	**162,681**	**5,959**	**505**	**43**	**169,188**

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**822**	**513**	**33**	**–**	**1,368**
New assets originated or purchased	1,385	–	–	–	**1,385**
Assets repaid	(2,326)	(337)	(35)	(26)	**(2,724)**
Transfers to Stage 1	30	(29)	(1)	–	**–**
Transfers to Stage 2	(1,395)	1,404	(9)	–	**–**
Transfers to Stage 3	(11)	(1,006)	1,017	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	1,040	468	1,250	92	**2,850**
Amounts written off	–	–	(1,387)	(65)	**(1,452)**
Foreign exchange and other movements	1,109	(153)	(631)	(1)	**324**
At 31 December 2019	**654**	**860**	**237**	**–**	**1,751**

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	**106,144**	**5,213**	**745**	**53**	**112,155**
New assets originated or purchased	158,144	–	–	–	**158,144**
Assets repaid	(116,836)	(1,226)	(99)	(34)	**(118,195)**
Transfers to Stage 1	850	(810)	(40)	–	**–**
Transfers to Stage 2	(2,368)	2,513	(145)	–	**–**
Transfers to Stage 3	(26)	(2,181)	2,207	–	**–**
Amounts written off	–	–	(3,348)	(43)	**(3,391)**
Foreign exchange and other movements	(7,809)	82	1,162	34	**(6,531)**
At 31 December 2019	**138,099**	**3,591**	**482**	**10**	**142,182**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**715**	**411**	**448**	**8**	**1,582**
New assets originated or purchased	1,014	–	–	–	**1,014**
Assets repaid	(1,468)	(194)	(30)	(12)	**(1,704)**
Transfers to Stage 1	23	(23)	–	–	**–**
Transfers to Stage 2	(638)	648	(10)	–	**–**
Transfers to Stage 3	(16)	(1,150)	1,166	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	649	483	2,119	47	**3,298**
Amounts written off	–	–	(3,348)	(43)	**(3,391)**
Foreign exchange and other movements	676	151	(46)	–	**781**
At 31 December 2019	**955**	**326**	**299**	**–**	**1,580**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2019	**31,221**	**541**	**157**	**–**	**31,919**
New assets originated or purchased	77,175	–	–	–	**77,175**
Assets repaid	(58,336)	(189)	(56)	–	**(58,581)**
Transfers to Stage 1	236	(191)	(45)	–	**–**
Transfers to Stage 2	(1,504)	1,521	(17)	–	**–**
Transfers to Stage 3	(1)	(1,381)	1,382	–	**–**
Amounts written off	–	–	(1,740)	–	**(1,740)**
Foreign exchange and other movements	8,620	331	540	–	**9,491**
At 31 December 2019	**57,411**	**632**	**221**	**–**	**58,264**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2019	**461**	**87**	**119**	**–**	**667**
New assets originated or purchased	1,032	-	–	–	**1,032**
Assets repaid	(1,272)	(26)	(12)	–	**(1,310)**
Transfers to Stage 1	16	(11)	(5)	–	**–**
Transfers to Stage 2	(626)	629	(3)	–	**–**
Transfers to Stage 3	(1)	(1,050)	1,051	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	870	470	722	–	**2,062**
Amounts written off	–	–	(1,740)	–	**(1,740)**
Foreign exchange and other movements	441	43	43	–	**527**
At 31 December 2019	**921**	**142**	**175**	**–**	**1,238**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Pawnshop loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2019	**4,575**	**26**	**–**	**–**	**4,601**
New assets originated or purchased	2,241	–	–	–	**2,241**
Assets repaid	(2,922)	(19)	(27)	–	**(2,968)**
Transfers to Stage 1	41	(28)	(13)	–	**–**
Transfers to Stage 2	(90)	90	–	–	**–**
Transfers to Stage 3	–	(40)	40	–	**–**
Amounts written off	–	–	–	–	**–**
Foreign exchange and other movements	53	1	–	–	**54**
At 31 December 2019	**3,898**	**30**	**–**	**–**	**3,928**

Pawnshop loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2019	**74**	**2**	**–**	**–**	**76**
New assets originated or purchased	35	–	–	–	**35**
Assets repaid	(124)	–	(1)	–	**(125)**
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(30)	30	–	–	**–**
Transfers to Stage 3	–	(30)	30	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	59	14	6	–	**79**
Amounts written off	–	–	–	–	**–**
Foreign exchange and other movements	50	(15)	(35)	–	**–**
At 31 December 2019	**64**	**1**	**–**	**–**	**65**

Tourism micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2019	**332**	**48**	**10**	**–**	**390**
New assets originated or purchased	21,508	–	–	–	**21,508**
Assets repaid	(12,307)	(9)	(6)	–	**(12,322)**
Transfers to Stage 1	16	(16)	–	–	**–**
Transfers to Stage 2	(226)	226	–	–	**–**
Transfers to Stage 3	–	(102)	102	–	**–**
Amounts written off	–	–	(68)	–	**(68)**
Foreign exchange and other movements	8,200	116	40	–	**8,356**
At 31 December 2019	**17,523**	**263**	**78**	**–**	**17,864**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Tourism micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2019	**1**	**2**	**4**	**–**	**7**
New assets originated or purchased	111	–	–	–	**111**
Assets repaid	(50)	–	(1)	–	**(51)**
Transfers to Stage 2	(24)	24	–	–	**–**
Transfers to Stage 3	(43)	(37)	80	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	34	17	56	–	**107**
Amounts written off	–	–	(68)	–	**(68)**
Foreign exchange and other movements	18	7	8	–	**33**
At 31 December 2019	**47**	**13**	**79**	**–**	**139**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2018 is as follows:

Agro, tourism and urban instant approval micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2018	**123,766**	**526**	**491**	**–**	**124,783**
New assets originated or purchased	342,110	–	–	10	**342,120**
Assets repaid	(250,493)	(759)	(625)	(9)	**(251,886)**
Transfers to Stage 1	228	(207)	(21)	–	**–**
Transfers to Stage 2	(5,479)	5,537	(58)	–	**–**
Transfers to Stage 3	(21)	(3,861)	3,882	–	**–**
Amounts written off	–	–	(4,574)	–	**(4,574)**
Foreign exchange and other movements	6,524	106	2,111	1	**8,742**
At 31 December 2018	**216,635**	**1,342**	**1,206**	**2**	**219,185**

Agro, tourism and urban instant approval micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2018	**751**	**256**	**386**	**–**	**1,393**
New assets originated or purchased	2,006	–	–	–	**2,006**
Assets repaid	(783)	(205)	(1,166)	–	**(2,154)**
Transfers to Stage 1	21	(19)	(2)	–	**–**
Transfers to Stage 2	(2,233)	2,243	(10)	–	**–**
Transfers to Stage 3	(11)	(2,979)	2,990	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	1,675	1,111	1,254	–	**4,040**
Amounts written off	–	–	(4,574)	–	**(4,574)**
Foreign exchange and other movements	50	43	2,053	–	**2,146**
At 31 December 2018	**1,476**	**450**	**931**	**–**	**2,857**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	**185,995**	**5,862**	**1,449**	**–**	**193,306**
New assets originated or purchased	176,436	–	–	84	**176,520**
Assets repaid	(184,267)	4,550	(463)	(4)	**(180,184)**
Transfers to Stage 1	723	(610)	(113)	–	**–**
Transfers to Stage 2	(5,317)	5,685	(368)	–	**–**
Transfers to Stage 3	(245)	(3,757)	4,002	–	**–**
Amounts written off	–	–	(5,509)	(54)	**(5,563)**
Foreign exchange and other movements	2,254	80	1,939	(1)	**4,272**
At 31 December 2018	**175,579**	**11,810**	**937**	**25**	**188,351**

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**1,425**	**829**	**1,010**	**–**	**3,264**
New assets originated or purchased	1,060	–	–	–	**1,060**
Assets repaid	(486)	(116)	(770)	–	**(1,372)**
Transfers to Stage 1	46	(43)	(3)	–	**–**
Transfers to Stage 2	(1,789)	1,834	(45)	–	**–**
Transfers to Stage 3	(134)	(2,557)	2,691	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	1,092	1,153	1,308	54	**3,607**
Amounts written off	–	–	(5,509)	(54)	**(5,563)**
Foreign exchange and other movements	24	(18)	1,947	–	**1,953**
At 31 December 2018	**1,238**	**1,082**	**629**	**–**	**2,949**

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	**90,383**	**1,624**	**409**	**–**	**92,416**
New assets originated or purchased	110,674	–	–	198	**110,872**
Assets repaid	(74,559)	428	45	(54)	**(74,140)**
Transfers to Stage 1	805	(746)	(59)	–	**–**
Transfers to Stage 2	(5,116)	5,293	(177)	–	**–**
Transfers to Stage 3	(1)	(1,136)	1,137	–	**–**
Amounts written off	–	–	(1,608)	(58)	**(1,666)**
Foreign exchange and other movements	4,703	142	321	–	**5,166**
At 31 December 2018	**126,889**	**5,605**	**68**	**86**	**132,648**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**763**	**155**	**208**	**–**	**1,126**
New assets originated or purchased	622	–	–	–	**622**
Assets repaid	(145)	(440)	(67)	–	**(652)**
Transfers to Stage 1	14	(13)	(1)	–	**–**
Transfers to Stage 2	(870)	886	(16)	–	**–**
Transfers to Stage 3	–	(691)	691	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	425	608	465	58	**1,556**
Amounts written off	–	–	(1,608)	(58)	**(1,666)**
Foreign exchange and other movements	13	8	361	–	**382**
At 31 December 2018	**822**	**513**	**33**	**–**	**1,368**

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	**87,238**	**2,135**	**508**	**–**	**89,881**
New assets originated or purchased	111,773	–	–	306	**112,079**
Assets repaid	(90,597)	1,185	50	(28)	**(89,390)**
Transfers to Stage 1	337	(292)	(45)	–	**–**
Transfers to Stage 2	(3,746)	3,869	(123)	–	**–**
Transfers to Stage 3	(503)	(1,783)	2,286	–	**–**
Amounts written off	–	–	(2,842)	(211)	**(3,053)**
Foreign exchange and other movements	1,642	99	911	(14)	**2,638**
At 31 December 2018	**106,144**	**5,213**	**745**	**53**	**112,155**

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**592**	**216**	**310**	**–**	**1,118**
New assets originated or purchased	585	–	–	–	**585**
Assets repaid	93	(171)	(476)	–	**(554)**
Transfers to Stage 1	21	(19)	(2)	–	**–**
Transfers to Stage 2	(890)	909	(19)	–	**–**
Transfers to Stage 3	(267)	(1,117)	1,384	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	561	593	1,241	219	**2,614**
Amounts written off	–	–	(2,842)	(211)	**(3,053)**
Foreign exchange and other movements	20	–	852	–	**872**
At 31 December 2018	**715**	**411**	**448**	**8**	**1,582**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	**15,176**	**171**	**182**	**–**	**15,529**
New assets originated or purchased	41,056	–	–	3	**41,059**
Assets repaid	(24,967)	208	(100)	–	**(24,859)**
Transfers to Stage 1	64	(50)	(14)	–	**–**
Transfers to Stage 2	(845)	859	(14)	–	**–**
Transfers to Stage 3	(19)	(642)	661	–	**–**
Amounts written off	–	–	(952)	(3)	**(955)**
Foreign exchange and other movements	756	(5)	394	–	**1,145**
At 31 December 2018	**31,221**	**541**	**157**	**–**	**31,919**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**189**	**58**	**141**	**–**	**388**
New assets originated or purchased	539	–	–	–	**539**
Assets repaid	(232)	(36)	(152)	–	**(420)**
Transfers to Stage 1	7	(6)	(1)	–	**–**
Transfers to Stage 2	(356)	360	(4)	–	**–**
Transfers to Stage 3	(11)	(487)	498	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	313	197	198	3	**711**
Amounts written off	–	–	(952)	(3)	**(955)**
Foreign exchange and other movements	12	1	391	–	**404**
At 31 December 2018	**461**	**87**	**119**	**–**	**667**

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2018	**416**	**–**	**–**	**–**	**416**
New assets originated or purchased	5,765	–	–	–	**5,765**
Assets repaid	(1,615)	24	2	–	**(1,589)**
Transfers to Stage 1	11	–	(11)	–	**–**
Transfers to Stage 2	(14)	14	–	–	**–**
Transfers to Stage 3	–	(12)	12	–	**–**
Amounts written off	–	–	(3)	–	**(3)**
Foreign exchange and other movements	12	–	–	–	**12**
At 31 December 2018	**4,575**	**26**	**–**	**–**	**4,601**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Pawnshop loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2018	**6**	**–**	**–**	**–**	**6**
New assets originated or purchased	91	–	–	–	**91**
Assets repaid	(32)	2	(11)	–	**(41)**
Transfers to Stage 2	(6)	6	–	–	**–**
Transfers to Stage 3	–	(9)	9	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	13	3	5	–	**21**
Amounts written off	–	–	(3)	–	**(3)**
Foreign exchange and other movements	2	–	–	–	**2**
At 31 December 2018	**74**	**2**	**–**	**–**	**76**

Tourism micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2018	**6,119**	**108**	**111**	**–**	**6,338**
New assets originated or purchased	420	–	–	–	**420**
Assets repaid	(6,037)	(76)	(15)	–	**(6,128)**
Transfers to Stage 1	19	(11)	(8)	–	**–**
Transfers to Stage 2	(55)	66	(11)	–	**–**
Transfers to Stage 3	–	(36)	36	–	**–**
Amounts written off	–	–	(116)	–	**(116)**
Foreign exchange and other movements	(134)	(3)	13	–	**(124)**
At 31 December 2018	**332**	**48**	**10**	**–**	**390**

Tourism micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2018	**10**	**7**	**51**	**–**	**68**
New assets originated or purchased	1	–	–	–	**1**
Assets repaid	(28)	(4)	17	–	**(15)**
Transfers to Stage 2	(8)	9	(1)	–	**–**
Transfers to Stage 3	–	(13)	13	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	26	3	8	–	**37**
Amounts written off	–	–	(116)	–	**(116)**
Foreign exchange and other movements	–	–	32	–	**32**
At 31 December 2018	**1**	**2**	**4**	**–**	**7**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

The movements in the above table do not include recoveries of assets written-off that reduce credit loss expense in profit or loss. Reconciliation of credit loss expense on loans to customers for the years 2019 and 2018 is as follows:

2019	*ECL charge, gross of recovery*	*Recovery*	*Credit loss expense in profit or loss*
Agro, tourism and urban instant approval micro loans	7,519	(360)	7,159
Agro micro loans	5,830	(2,098)	3,732
Urban micro loans	3,389	(1,506)	1,883
Consumer loans	2,311	(189)	2,122
Agro, tourism and urban SME loans	1,835	(1,372)	463
Tourism micro loans	200	(28)	172
Pawnshop loans	(10)	(3)	(13)
	21,074	**(5,556)**	**15,518**

2018	*ECL charge, gross of recovery*	*Recovery*	*Credit loss expense in profit or loss*
Agro micro loans	5,248	(2,537)	2,711
Consumer loans	1,234	(471)	763
Agro, tourism and urban instant approval micro loans	6,038	(321)	5,717
Tourism micro loans	55	(71)	(16)
Urban micro loans	3,517	(1,335)	2,182
Agro, tourism and urban SME loans	1,908	(517)	1,391
Pawnshop loans	73	–	73
	18,073	**(5,252)**	**12,821**

Modified and restructured loans

The Bank 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. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

The table below includes Stage 2 and 3 assets that were modified during the period. There was no material modification loss suffered by the Bank.

	2019	*2018*
Restructured loans as at 31 December	20,498	22,848

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 loans with a value at origination of over USD 10 thousand are collateralised. The main types of collateral are land and other real estate, vehicles and gold.

As at 31 December 2019 and 2018, collateral does not have any material impact on ECL on Stage 3 loans.

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Industry and geographical analysis of the loan portfolio

Loans to customers were issued to customers located within Georgia who operate in the following economic sectors:

	2019	*2018*
Agriculture	349,093	294,415
Trade	193,219	166,029
Consumer	186,575	123,408
Service	86,915	77,502
Manufacturing	17,836	16,097
Transportation	12,035	11,621
Other	263	177
	845,936	**689,249**
Less: expected credit losses	(11,436)	(9,506)
Net loans to customers	**834,500**	**679,743**

9. Investment securities

	2019	*2018*
Debt securities at amortised cost		
Treasury bills of the Ministry of Finance (BB rated)	2,916	–
Corporate bonds of foreign issuers (AAA rated)	26,135	–
Debt securities at amortised cost	**29,051**	**–**

All balances of investment securities are held at amortized cost and are allocated to Stage 1. ECL was not material.

10. Property and equipment

The movements in property and equipment were as follows in 2019:

	Land and buildings (including leasehold improvement)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
31 December 2018	**1,485**	**8,831**	**3,178**	**6,649**	**20,143**
Additions	409	2,067	326	2,840	**5,642**
Disposals	(551)	(776)	(75)	(284)	**(1,686)**
31 December 2019	**1,343**	**10,122**	**3,429**	**9,205**	**24,099**
Accumulated depreciation					
31 December 2018	**(641)**	**(5,277)**	**(1,986)**	**(4,061)**	**(11,965)**
Depreciation charge	(249)	(1,668)	(248)	(1,156)	**(3,321)**
Disposals	261	714	75	262	**1,312**
31 December 2019	**(629)**	**(6,231)**	**(2,159)**	**(4,955)**	**(13,974)**
Net book value as at 31 December 2018	**844**	**3,554**	**1,192**	**2,588**	**8,178**
Net book value as at 31 December 2019	**714**	**3,891**	**1,270**	**4,250**	**10,125**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

The movements in property and equipment were as follows in 2018:

	Land and buildings (including leasehold improvement)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
31 December 2017	**1,177**	**7,227**	**2,991**	**5,383**	**16,778**
Additions	308	1,900	308	1,282	**3,798**
Disposals	–	(296)	(121)	(16)	**(433)**
31 December 2018	**1,485**	**8,831**	**3,178**	**6,649**	**20,143**
Accumulated depreciation					
31 December 2017	**(453)**	**(4,007)**	**(1,786)**	**(3,103)**	**(9,349)**
Depreciation charge	(188)	(1,548)	(318)	(971)	**(3,025)**
Disposals	–	278	118	13	**409**
31 December 2018	**(641)**	**(5,277)**	**(1,986)**	**(4,061)**	**(11,965)**
Net book value as at 31 December 2017	**724**	**3,220**	**1,205**	**2,280**	**7,429**
Net book value as at 31 December 2018	**844**	**3,554**	**1,192**	**2,588**	**8,178**

The gross amount of fully depreciated property and equipment that is still in use was GEL 6,413 (2018: GEL 4,743).

11. Intangible assets

The movements in intangible assets were as follows in 2019:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Customer relations*	*Total*
Cost					
31 December 2018	**4,923**	**1,142**	**1,045**	**3,238**	**10,348**
Additions	619	1,609	632	–	**2,860**
31 December 2019	**5,542**	**2,751**	**1,677**	**3,238**	**13,208**
Accumulated amortization					
31 December 2018	**(1,629)**	**(415)**	**(588)**	**(219)**	**(2,851)**
Amortization charge	(483)	(470)	(62)	(645)	**(1,660)**
31 December 2019	**(2,112)**	**(885)**	**(650)**	**(864)**	**(4,511)**
Net book value as at 31 December 2018	**3,294**	**727**	**457**	**3,019**	**7,497**
Net book value as at 31 December 2019	**3,430**	**1,866**	**1,027**	**2,374**	**8,697**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

The movements in intangible assets 2018 were as follows:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Customer relations*	*Total*
Cost					
31 December 2017	**3,816**	**1,142**	**853**	**–**	**5,811**
Additions	1,107	–	192	–	**1,299**
Business combination (Note 5)	–	–	–	3,238	**3,238**
31 December 2018	**4,923**	**1,142**	**1,045**	**3,238**	**10,348**
Accumulated amortization					
31 December 2017	**(1,270)**	**(260)**	**(540)**	**–**	**(2,070)**
Amortization charge	(359)	(155)	(48)	(219)	**(781)**
31 December 2018	**(1,629)**	**(415)**	**(588)**	**(219)**	**(2,851)**
Net book value as at 31 December 2017	**2,546**	**882**	**313**	**–**	**3,741**
Net book value as at 31 December 2018	**3,294**	**727**	**457**	**3,019**	**7,497**

12. Leases

The movements in right-of-use assets were as follows:

	Right-of-use assets (offices and other real estate)
31 December 2018	**–**
IFRS 16 transition (Note 3)	12,810
1 January 2019	**12,810**
Additions	4,033
Disposals and write-offs	(586)
31 December 2019	**16,257**
Accumulated depreciation	
31 December 2018	**–**
Depreciation charge	(4,613)
Disposals and write-offs	586
31 December 2019	**(4,027)**
Net book value	
31 December 2018	**–**
31 December 2019	**12,230**

The movement in lease liabilities was as follows:

	Lease liabilities
As at 1 January 2019	**–**
IFRS 16 transition (Note 3)	12,810
Additions	4,033
Interest expense	1,160
Payments	(5,166)
Foreign exchange effect	389
As at 31 December 2019	**13,226**

The Bank recognised rent expense from short-term leases of GEL 138 in 2019. Total cash outflows for leases amounted to GEL 5,298. The Bank also had non-cash additions to right-of-use assets and lease liabilities of GEL 4,033 in 2019 (2018: nill). Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognized amounted to GEL 14,694 as at 31 December 2019.

(Thousands of Georgian Lari)

13. Taxation

The corporate income tax expense comprises:

	2019	***2018***
Current year tax charge	6,610	1,583
Deferred taxation charge due to origination and reversal of temporary differences	(141)	2,822
Total income tax expense	**6,469**	**4,405**

The income tax rate applicable to the Bank's income is 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit expense on statutory rates with actual is as follows:

	2019	***2018***
Profit before tax	**36,008**	**24,596**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**5,401**	**3,689**
Non-deductible expenses	312	232
Actualization of prior period tax returns (a)	1,531	–
Tax exempt income	(294)	(208)
Change in tax regulations (b)	(481)	692
Income tax expense	**6,469**	**4,405**

(a) In 2018 and 2019, the Bank was subject to an inspection by tax authorities, resulting in GEL 1,531 accrual of additional income tax related to tax treatment of certain transactions that occurred in previous periods. The Bank settled the amount of additional tax assessment in 2018 and 2020 and recognized GEL 1,531 as income tax expense in 2019 profit or loss. Notwithstanding with that, the Bank does not agree with the assessment and appealed the results of tax inspection in the Civil Court.

(b) In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at 1 January 2019, subsequently amended in 2018 to 1 January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the amendments, the Bank remeasured its deferred tax assets and liabilities at the tax rates that were expected to apply to the period when the asset is realised or the liability is settled. As IAS 12 *Income Taxes* requires, the Bank used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective starting from 1 January 2023 for the purpose of deferred tax measurement as at 31 December 2019.

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability as of 31 December 2019 and 2018.

(Thousands of Georgian Lari)

13. Taxation (continued)

Deferred tax asset and liability (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	31 December 2017	*IFRS 9 effect recognized in equity*	*Business combination*	*Recognized in profit or loss*	*31 December 2018*	*Recognized in profit or loss*	*31 December 2019*
Tax effect of deductible temporary differences							
Tax loss carry forward	1,339	–	–	(1,339)	–	–	–
Loan portfolio, except for expected credit losses	253	268	–	488	1,009	354	1,363
Deferred tax assets	**1,592**	**268**	**–**	**(851)**	**1,009**	**354**	**1,363**
Tax effect of taxable temporary differences							
Excpected credit losses	(424)	(75)	–	(952)	(1,451)	(229)	(1,680)
Property and equipment and intangible assets	(359)	–	(486)	(835)	(1,680)	84	(1,596)
Loans and borrowings	(135)	–	–	(183)	(318)	(58)	(376)
Salaries payable and other liabilities	(96)	–	–	(1)	(97)	(10)	(107)
Deferred tax liabilities	**(1,014)**	**(75)**	**(486)**	**(1,971)**	**(3,546)**	**(213)**	**(3,759)**
Net deferred tax assets/ (liabilities)	**578**	**193**	**(486)**	**(2,822)**	**(2,537)**	**141**	**(2,396)**

14. Other financial assets

Other financial assets comprise:

	2019	*2018*
Other financial assets		
Local funds in settlement	3,983	2,684
Accrued life insurance fees	1,011	1,014
International money settlements	847	2,317
Receivables from employees	122	153
Guarantee deposits on derivative financial instruments	–	823
Other	1,764	1,178
Less: allowance for impairment of other financial assets	(1,235)	(825)
Total financial assets	**6,492**	**7,344**

The Bank recognized GEL 410 charge on allowance for impairment of other financial assets (2018: GEL 210), that were recognised in other operating expenses.

15. Other non-financial assets

Other non-financial assets comprise:

	2019	*2018*
Other non-financial assets		
Prepayments and advances	4,701	2,730
Repossessed property	1,208	789
Inventory	660	534
Prepaid taxes other than income tax	656	441
Total non-financial assets	**7,225**	**4,494**

The Bank holds repossessed property which represent land and other real estate taken into Bank's ownership as a settlement of non-performing loans. The Bank intends to sell those assets in normal course of business.

In 2019, the Bank repossessed GEL 981 properties (mostly represented by real estate) in non-cash settlement of loans issued (2018: GEL 103). The Bank recognized GEL 421 loss on adjustment of repossessed properties to their net realizable value as at 31 December 2019 (2018: nil), presented in other operating expenses.

(Thousands of Georgian Lari)

16. Loans from banks and other financial institutions and subordinated loans

Loans from banks and other financial institutions consisted of the following:

	2019	*2018*
Unsecured loans from financial institutions	701,954	564,528
Time deposits and loans from resident commercial banks	–	21,139
Loans from banks and other financial institutions	**701,954**	**585,667**
- Measured at amortized cost	687,550	572,471
- Designated at fair value through profit or loss	14,404	13,196

As at 31 December 2019 loans from banks and other financial institutions and subordinated loans mature from February 2020 to September 2026, and are denominate in GEL, USD and EUR. As at 31 December 2018 loans from banks and other financial institutions and subordinated loans mature from January 2019 to December 2025.

As at 31 December 2019, the Bank was in compliance with all externally imposed financial covenants under loans from banks and other financial institutions and subordinated loans.

Interest expense recognized in respect of loans from banks and other financial institutions designated at fair value through profit or loss amounted to GEL 729 (2018: 750).

Subordinated loans were obtained from IFIs and consisted of the following:

	Currency	*Interest rate*	*Maturity*	*2019*	*2018*
Loan 1	GEL	3-month CD rate + 9.02%	December 2025	5,053	5,047
Loan 2	GEL	3-month CD rate + 7.72%	April 2026	6,196	–
Loan 3	GEL	3-month CD rate + 7.55%	June 2026	4,031	–
Loan 4	GEL	13.55%	September 2026	3,387	–
Loan 5	GEL	13.55%	September 2026	3,387	–
Loan 6	GEL	11%	April 2019	–	8,420
Subordinated loans				**22,054**	**13,467**

Circumstances that require early repayment of subordinated debt include, in respect of all subordinated debt agreements, default on payments due, covenant breaches, cross-default, and insolvency.

Loans 4 and 5 maturing in September 2026 may be converted to shares of the Bank at discretion of the lender upon or any time after increase of Bank's share capital occurring after the date of origination of that subordinated debt at the price corresponding to the share price of such share capital increase. No increase in share capital occurred subsequent to the date of origination of that subordinated debt. No conversion features are present in the other subordinated debt agreements as at 31 December 2019.

17. Changes in liabilities arising from financing activities

	Loans from banks and other financial institutions	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2017	**476,100**	**8,420**	**484,520**
Proceeds from issue	304,402	5,000	**309,402**
Redemption	(200,077)	–	**(200,077)**
Foreign currency translation	2,349	–	**2,349**
Change in fair value	(242)	–	**(242)**
Other	3,135	47	**3,182**
Carrying amount at 31 December 2018	**585,667**	**13,467**	**599,134**
Proceeds from issue	439,192	16,536	**455,728**
Redemption	(330,603)	(8,120)	**(338,723)**
Foreign currency translation	8,168	–	**8,168**
Change in fair value	267	–	**267**
Other	(737)	171	**(566)**
Carrying amount at 31 December 2019	**701,954**	**22,054**	**724,008**

(Thousands of Georgian Lari)

17. Changes in liabilities arising from financing activities (continued)

The “Other” line includes the effect of accrued but not yet paid interest on other borrowed funds and subordinated loans. The Bank classifies interest paid as cash flows from operating activities.

Change in lease liabilities is provided in Note 12.

18. Customer accounts

The amounts due to customers include the following:

	2019	*2018*
Time deposits	43,375	11,779
Current accounts	39,001	14,900
Savings accounts	11,434	–
Accounts in course of settlement	2,928	2,267
	96,738	**28,946**

19. Other liabilities

	2019	*2018*
Salaries accrued	7,440	7,452
Payables for goods and services	5,268	1,767
Funds in settlement	950	3,779
Accrued expenses	863	877
Grant liabilities	417	–
Taxes other than income tax payable	217	203
Other liabilities	1,067	–
	16,222	**14,078**

20. Equity

The share capital of the Bank was contributed by the shareholders in GEL and they entitle to dividends and any capital distribution in GEL.

As at 31 December 2019 and 2018, the Bank’s authorized, issued and fully paid capital amounted to GEL 4,400 comprising of 440,000 common shares with nominal value of GEL 10.00. Each share entitles one vote to the shareholder.

Dividends

In accordance with Georgian legislation the Bank’s distributable reserves are limited to the balance of retained earnings as recorded in the Bank’s statutory financial statements prepared in accordance with IFRSs. In certain circumstances dividend distributions might be subject to the approval by the regulator.

On July 2019, at the general meeting of shareholders, the Bank declared dividends for 2018 in amount of GEL 6,316. Dividend declared was fully paid to shareholders in 2019. In 2018 the Bank paid dividends of GEL 10,526. Dividend per share amounted to GEL 0.01 (2018: GEL 0.02).

21. Commitments and contingencies

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments.

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved credit card limits of “Wish” and “Crop” credit cards. These credit cards have fixed limits and generally are extended for a period of up to eight months.

(Thousands of Georgian Lari)

21. Commitments and contingencies (continued)

Credit related commitments (continued)

The Bank applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers. Customers with loans in arrears more than four days cannot draw any portion of their limits.

The respective undrawn balances are as follow:

	2019	*2018*
Undrawn limit on credit cards	43,883	20,568
Other loan commitments	5,345	4,169
	49,228	**24,737**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The Bank has unconditional right to cancel unused card balances.

As of 31 December 2018, the Bank's other commitments and contingencies comprised the following:

	2018
Operating lease commitments (non-cancellable)	
Not later than 1 year	1,526
More than 1 year but less than 5 years	1,456
Commitments and contingencies	**2,982**

Legal

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

Taxation

Tax legislation in Georgia is subject to varying interpretations and changes can occur frequently. These circumstances may create tax risks in Georgia that are more significant than in other developed economics. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax positions will be sustained.

Insurance

The Bank has BBB insurance with cyber fraud coverage, cash insurance and full insurance coverage of its premises and equipment. The Bank also has insurance for third party liability, directors' and officers' liability.

22. Fee and commission income

Fee and commission income comprises:

	2019	*2018*
Fees from credit related activities	19,383	18,650
Fees from settlement and cash operations	2,138	1,547
Other	942	652
	22,463	**20,849**

(Thousands of Georgian Lari)

22. Fee and commission income (continued)

The Bank's revenue from contracts with customers is mostly represented by fee and commission income.

The Bank recognised the following contract assets and liabilities in statement of financial position related to its contracts with customers:

	2019	*1 January 2019*
Accrued income receivable (presented within other financial assets)	1,013	1,014

Fees for services where performance obligation is satisfied at one point in time are usually collected before, or right after, completion of underlying transaction. Fees for services where performance obligations are satisfied over time are collected on a regular (usually, monthly) basis.

23. Fee and commission expense

Fee and commission expense comprises:

	2019	*2018*
Fees from credit related activities	3,835	3,299
Fees from settlement and cash operations	1,169	1,018
Other	81	80
	5,085	**4,397**

24. Net losses from foreign currencies

Net losses from foreign currencies comprises:

	2019	*2018*
Dealing	2,051	2,344
Translation differences	(824)	565
Net result from foreign currency derivatives	830	(3,902)
	2,057	**(993)**

25. Other operating income

Other operating income comprises:

	2019	*2018*
Income from grants	476	331
Gains from disposal of property, plant and equipment	436	64
Income from sale of repossessed property	145	164
Other	47	3
	1,104	**562**

26. Other operating expenses

Other operating expenses:

	2019	*2018*
Expenses for disposal of property, plant and equipment	513	22
Provisioning of repossessed property	421	–
Provisioning of court expenses	410	210
Other operating expense	120	218
	1,464	**450**

(Thousands of Georgian Lari)

27. Personnel expenses

Personnel expenses comprise:

	2019	*2018*
Salary expenses	50,865	47,211
Other personnel expenses	8,386	6,050
	59,251	**53,261**

Other personnel expenses are represented by salaries of village councils, health and pension insurance and other employee benefits.

The average number of Bank's full time employees during 2019 was:

Category	*2019*
Top management	3
Middle management	124
Other	2,183
Total	**2,310**

On average 2,370 employees were employed under temporary service contracts.

28. Other general administrative expenses

	2019	*2018*
Transport and travel expenses	4,937	4,745
Legal and advisory expenses	2,354	1,801
Rent and utilities	2,143	6,541
Communication expenses	1,781	1,677
Supplies and other consumables	1,774	1,643
Marketing, advertising and entertainment	1,698	1,706
Software expenses	1,268	1,206
Operating taxes	421	416
Repair and maintenance	769	614
Insurance expenses	430	371
Training	399	452
Security service expenses	209	217
Other	1,030	868
	19,213	**22,257**

Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Bank's auditor for the years ended 31 December 2019 and 2018 comprises:

	2019	*2018*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	162	140
Expenditures for other professional services	12	29
	174	**169**

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 408 (2018: GEL 49).

(Thousands of Georgian Lari)

29. Risk management

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The main risks the Bank is exposed to include: credit risk, financial risk and operating risks.

Supervisory Board and Management Board

The Supervisory Board together with its committees has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures.

Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Management Board reports directly to the Supervisory Board.

Asset Liability Committee (ALCO)

ALCO has the overall responsibility for the development of the finance risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. ALCO which includes members of the senior management and . ALCO is responsible for making primary risk decisions, as well for establishment of risk policies and limits. The policies developed by ALCO are approved by the Supervisory Board.

ALCO meetings are held on regular basis. At ALCO meetings, exposures to financial risks are discussed and risk mitigation decisions are made. In addition, any potential exposure to financial risks related to any new product are analyzed and appropriate decisions are made on measurement, limitation and managing of such the risks.

Internal audit

Risk management processes throughout the Bank are audited by the internal audit function that examines both the adequacy of the procedures and Bank's compliance with the procedures. Internal Audit reports directly its findings and recommendations to the Audit Committee.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting financial, business and reputational eligibility criteria and conducting due diligence on its customers, clients and counterparts; by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations; and by monitoring exposures in relation to such limits.

Credit risk is monitored by credit department. There are several levels of approval based on loan amount.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, is best represented by their carrying amounts. Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Decision on loan issuance are approved by a Bank's credit committee of appropriate level, depending on the amount and product of the loan. The Bank has several levels of credit committees, starting from the credit committee of a service center and up to the Head Office credit committee.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks through the use of scoring models and application data verification procedures). Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

Assessment of the applicant's creditworthiness through monitoring of its business allows timely avoidance the risk of financial loss. Monitoring is performed by credit officers who report the results to the management.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees.

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Bank calculates ECL. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument'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 Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 includes loans overdue from 0 to 30 day arrears. It also includes facilities where the credit risk has improved to level approximate to that at origination and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 includes loans overdue from 31 to 90 day arrears, and restructured loans overdue less than 90 day arrears (R1). Stage 2 loans also include facilities, where the credit risk has improved so that the loan is no longer credit-impaired and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. Stage 3 includes loans overdue more than 90 day arrears and restructured loans overdue more than 90 day arrears (R2). The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition Bank considers following factors which indicate default:

- Bankruptcy proceedings of the borrower have been initiated;
- The Bank has initiated court procedures against the borrower;
- Breach of covenants or conditions, unless the Bank has decided to waive or modify the covenant or condition;
- Specific information on the client's business or changes in the client's market environment that as or is expected to have a significant negative impact on the future cash flow.

The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

PD estimation process

PD estimates are estimates at a certain date, which are calculated based on statistical data. For the purposes of PD calculations, loan portfolio is divided (by each separate product segment) in delinquency buckets, as follows:

- Stage 1 − not overdue loans;
- Stage 1 − loans overdue 1 to 30 days;
- Stage 2 − loans overdue 31 to 60 days;
- Stage 2 − loans overdue 61 to 90 days;
- Stage 2 − restructured loans overdue less than 90 days (R1);
- Stage 3 − loans overdue more than 90 days; defaulted loans;
- Stage 3 − restructured loans overdue more than 90 days (R2).

If a counterparty or exposure migrates between buckets, then this will lead to a change in the estimate of the associated PD. PDs are calculated based on four-year average and then PD migration percentage matrixes are averaged for analysis period.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, has assessed impact of macro-economic variables on probability of default and recovery rate. The following macro-economic variables were involved in the analysis:

- Real growth rate of GDP of Georgia;
- Inflation rate;
- Exchange rates.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years. Macroeconomic factors regularly published by the National Bank of Georgia are applied. Based on this analysis, the Company identified portfolio default correlation with real growth rate of GDP of Georgia.

Key drivers	***2020***	***2021***	***2022***
GDP growth, %			
Upside (25% weight)	5.5%	5.5%	5%
Base case (50% weight)	4.5%	5%	5%
Downside (25% weight)	2.5%	4%	4.5%

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered.

The Bank segments loans to customers into smaller 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, maturity terms) as well as borrower characteristics.

Loss given default is calculated based on historical defaults and respective recoveries during four years. Historical recovery percentages are discounted cash flow basis using the effective interest rate as the discounting factor.

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information. If contractual payments are more than 30 days past due, Bank considers the credit risk is deemed to have increased significantly since initial recognition.

Credit quality of loans to customers

The following table provide information on the credit quality of loans to customers as at 31 December 2019:

Loans to customers	*Total gross carrying value 31 December 2019*	*Stage 1*	*Stage 2*	*Stage 3*
Not overdue	**819,320**	819,320	–	–
1 to 30 days overdue	**1,585**	1,585	–	–
31 to 60 days overdue	**1,121**	–	1,121	–
61 to 90 days overdue	**1,110**	–	1,110	–
Restructured loans overdue less than 90 days (R1)	**19,049**	–	19,049	–
Loans overdue more than 90 days; defaulted loans	**2,302**	–	–	2,302
Restructured loans overdue more than 90 days (R2)	**1,449**	–	–	1,449
Total loans to customers	**845,936**	**820,905**	**21,280**	**3,751**

The following table provide information on the credit quality of loans to customers as at 31 December 2018:

Loans to customers	*Total gross carrying value 31 December 2018*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*
Not overdue	**659,666**	659,666	–	–	–
1 to 30 days overdue	**1,709**	1,709	–	–	–
31 to 60 days overdue	**1,049**	–	1,049	–	–
61 to 90 days overdue	**1,080**	–	1,080	–	–
Restructured loans overdue less than 90 days (R1)	**22,579**	–	22,456	–	123
Loans overdue more than 90 days; defaulted loans	**2,898**	–	–	2,854	44
Restructured loans overdue more than 90 days (R2)	**268**	–	–	268	–
Total loans to customers	**689,249**	**661,375**	**24,585**	**3,122**	**167**

Financial risk

Bank is exposed to different types of financial risks: liquidity risk and market risk, including foreign currency risk and interest rate risk.

These risks are controlled and managed on ongoing basis.

(Thousands of Georgian Lari)

29. Risk management (continued)

Financial risk (continued)

Financial risks are measured and controlled by the Financial Risk Management Unit, which reports to the main risk decision making body – ALCO.

Liquidity risk

Liquidity risk is the risk that the Bank 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, these are long-term fund from international financial institutions (IFIs) and loans with local banks, to provide funds timely upon request. Overdrafts from local banks are also available in case of emergency liquidity needs.

Liquidity management is a key part of asset and liability management. Future expected cash inflows and outflows are monitored continuously. Short-term liquidity plan is developed in the beginning of every month. The plan includes weekly liquidity planning for the following one month and detailed planning for the next two months, along with projections for the following twelve months that are prepared on a monthly basis.

Funding decisions are made on regular ALCO meetings that are held at least monthly or more frequently if required.

Liquidity position is assessed on monthly basis by liquidity ratios that are defined by Financial Risk Management Policy.

In addition, the Bank's Treasury department monitors liquidity position on daily basis and ensures that appropriate liquidity positions are maintained in accordance with the internal limits that are set based on historical data and consider relevant internal and external factors, such as funding cost and disbursement seasonality. By doing so, Treasury may reallocate funds to branches and for various operational needs efficiently as needed.

To avoid holding excessive cash, the management establishes maximum cash levels. The amounts above the limit are placed with top rated local banks. Exposure limits for local banks are defined and proposed by Management Board and approved by Supervisory Board
.

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as of 31 December 2019 based on contractual undiscounted inflows and obligations:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Total gross outflow*
Cash and cash equivalents	76,941	–	–	**76,941**
Amounts due from credit institutions	–	23,811	–	**23,811**
Gross-settled derivative financial assets/ liabilities (notional amounts receivable/ payable)	197	–	811	**1,008**
Loans to customers	54,770	489,518	507,827	**1,052,115**
Investment securities	–	2,549	37,270	**39,819**
Other financial assets	4,857	1,175	460	**6,492**
Total financial assets	**136,765**	**517,053**	**546,368**	**1,200,186**
Loans from banks and other financial institutions	1,337	249,046	595,434	**845,817**
Gross-settled derivative financial assets/ liabilities (notional amounts receivable/ payable)	83	1,288	1,622	**2,993**
Customer accounts	56,211	34,301	8,584	**99,096**
Other payables	11,716	7,364	1,061	**20,141**
Lease liabilities	479	5,235	9,416	**15,130**
Subordinated debt	–	2,937	38,401	**41,338**
Total financial liabilities	**69,826**	**300,171**	**654,518**	**1,024,515**
Maturity gap	**66,939**	**216,882**	**(108,150)**	**175,671**

(Thousands of Georgian Lari)

29. Risk management (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as of 31 December 2018 based on contractual undiscounted obligations:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Total gross outflow*
Cash and cash equivalents	52,211	–	–	**52,211**
Amounts due from credit institutions	–	17,142	–	**17,142**
Gross-settled derivative financial assets/ liabilities (notional amounts receivable/ payable)	–	938	–	**938**
Loans to customers	49,519	427,336	371,381	**848,236**
Other financial assets	5,297	974	1,073	**7,344**
Total financial assets	**107,027**	**446,390**	**372,454**	**925,871**
Loans from banks and other financial institutions	8,165	190,480	502,749	**701,394**
Gross-settled derivative financial assets/ liabilities (notional amounts receivable/ payable)	–	1,897	3,069	**4,966**
Customer accounts	18,956	9,317	968	**29,241**
Other payables	12,748	2,343	–	**15,091**
Subordinated debt	–	9,490	9,517	**19,007**
Total financial liabilities	**39,869**	**213,527**	**516,303**	**769,699**
Maturity gap	**67,158**	**232,863**	**(143,849)**	**156,172**

Currency risk

Foreign currency asset and liability matching is the key tool in monitoring the net open foreign currency (FX) position of the Bank. The table below quantifies the net open FX position for the Bank as the difference between foreign currency assets and liabilities, less the effect of foreign currency derivatives held for risk management purposes. A gap in any currency other than the local currency represents potential risk. Negative FX gap represents risk to appreciation of the foreign currency, while positive gap represents risk towards depreciation of the foreign currency. The Management Board sets limits on the FX positions within the limits established by the Supervisory Board.

The following table shows the foreign currency exposure structure of monetary assets and liabilities:

		2019			*2018*	
	USD	*EUR*	*Other FC*	*USD*	*EUR*	*Other FC*
Cash and cash equivalents	30,017	13,253	2,439	10,971	7,327	1,829
Amounts due from credit institutions	22,049	1,762	–	17,142	–	–
Loans to customers	39,119	43,174	–	75,804	5,424	–
Other monetary assets	915	296	162	1,691	421	737
Total assets	**92,100**	**58,485**	**2,601**	**105,608**	**13,172**	**2,566**
Loans and borrowings	(97,329)	(54,799)	–	(111,439)	(12,182)	–
Customer accounts	(20,845)	(4,778)	(127)	(7,249)	(995)	(3)
Lease liabilities	(5,974)	–	–	–	–	–
Other monetary liabilities	(1,895)	(54)	(10)	(1,473)	(47)	(66)
Total liabilities	**(126,043)**	**(59,631)**	**(137)**	**(120,161)**	**(13,224)**	**(69)**
The effect of derivatives held for risk management	30,111	–	(1,500)	14,319	(922)	–
Net position after derivatives held for risk management purposes	**(3,832)**	**(1,146)**	**964**	**(234)**	**(974)**	**2,497**

(Thousands of Georgian Lari)

29. Risk management (continued)

Currency risk (continued)

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the foreign currency at 31 December 2019 and 2018 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019	***2018***
20% appreciation of foreign currency against GEL	(803)	(258)
20% depreciation of foreign currency against GEL	803	258

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows. Bank's loans to clients are issued at fixed rates. Rates can be changed upon renewal of the loans. Therefore Bank aims to obtain preferably fixed rate debt funding to reduce the risk of re-pricing from the funding side. The management controls the maturity gap between interest bearing assets and liabilities, as well as monitors the margin between actual interest rate on the loan portfolio and weighted cost of funding. Bank continuously works to set interest rates in a competitive environment and negotiates funding terms with the investors.

The table reflects asset and liabilities that are exposed to interest rate risk as of 31 December 2019:

	Demand and less than 1 month	***More than 1 month and less than 1 year***	***More than 1 year***	***Carrying amount***
Cash and cash equivalents	76,941	–	–	**76,941**
Amounts due from credit institutions	–	23,811	–	**23,811**
Loans and advances to customers	41,867	533,627	259,006	**834,500**
Investment securities	154	–	28,897	**29,051**
Total interest-bearing assets	**118,962**	**557,438**	**287,903**	**964,303**
Loans from banks and other financial institutions, including subordinated debt	13,812	575,148	135,048	**724,008**
Customer accounts	57,304	31,702	7,732	**96,738**
Lease liabilities	380	4,337	8,509	**13,226**
Total interest-bearing liabilities	**71,496**	**611,187**	**151,289**	**833,972**
Interest rate maturity gap	**47,466**	**(53,749)**	**136,614**	**130,331**

The table reflects asset and liabilities that are exposed to interest rate risk as of 31 December 2018:

	Demand and less than 1 month	***More than 1 month and less than 1 year***	***More than 1 year***	***Carrying amount***
Cash and cash equivalents	52,211	–	–	**52,211**
Amounts due from credit institutions	–	17,142	–	**17,142**
Loans and advances to customers	191,569	339,333	148,841	**679,743**
Total interest-bearing assets	**243,780**	**356,475**	**148,841**	**749,096**
Loans from banks and other financial institutions, including subordinated debt	98,581	347,149	153,404	**599,134**
Customer accounts	19,030	9,015	901	**28,946**
Total interest-bearing liabilities	**117,611**	**356,164**	**154,305**	**628,080**
Interest rate maturity gap	**126,169**	**311**	**(5,464)**	**121,016**

(Thousands of Georgian Lari)

29. Risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss net of taxes to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018 is as follows:

	2019	***2018***
	Profit (loss)	***Profit (loss)***
100 bp parallel fall	63	(1,545)
100 bp parallel rise	(63)	1,545

Operating 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. Controls are in place to ensure segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Anti-money laundering (AML) compliance is controlled by a dedicated AML unit.

Tax compliance is monitored by the tax compliance unit.

The Bank has an Operating Risk Committee, which meets at least quarterly and reports to the Supervisory Board. The Operational Risk Unit reports to the Operational Risk Committee and covers operational risk appetite and KRIs (Key Risk Indicators), the classification of operational risk types, business process identification and mapping, operational risk assessment tools and methods, and bank-wide operational risk monitoring, reporting and mitigation.

30. Fair value measurements

Fair value measurement procedures

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Bank's financial department determines the policies and procedures for fair value measurement for Bank's assets including derivatives. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

As at 31 December 2019 and 2018, the Bank does not have any financial instruments measured at fair value, for which fair value is based on valuation techniques involving the use of significant non-market observable inputs.

(Thousands of Georgian Lari)

30. Fair value measurements (continued)

Fair value hierarchy

The tables below analyses financial instruments value at 31 December 2019 and 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Fair value measurement using				
At 31 December 2019	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying amount***
Assets measured at fair value					
Derivative financial assets					
Foreign exchange swaps	–	1,160	–	**1,160**	**1,160**
Assets for which fair values are disclosed					
Cash and cash equivalents	–	76,941	–	**76,941**	**76,941**
Amounts due from credit institutions	–	23,811	–	**23,811**	**23,811**
Loans to customers	–	–	746,408	**746,408**	**834,500**
Investment securities	–	29,051	–	**29,051**	**29,051**
Liabilities measured at fair value					
Loans from banks and other financial institutions	–	14,404	–	**–**	**–**
Derivative financial liabilities					
Foreign exchange swaps	–	394	–	**394**	**394**
Liabilities for which fair values are disclosed					
Loans from banks and other financial institutions, including subordinated debt	–	709,320	–	**709,320**	**709,604**
Customer accounts	–	96,735	–	**96,735**	**96,738**
Lease liabilities	–	13,226	–	**13,226**	**13,226**

	Fair value measurement using				
At 31 December 2018	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying amount***
Assets measured at fair value					
Derivative financial assets					
Foreign exchange swaps	–	14	–	**14**	**14**
Assets for which fair values are disclosed					
Cash and cash equivalents	–	52,211	–	**52,211**	**52,211**
Amounts due from credit institutions	–	17,142	–	**17,142**	**17,142**
Loans to customers	–	–	627,390	**627,390**	**679,743**
Liabilities measured at fair value					
Loans from banks and other financial institutions	–	13,196	–	**–**	**–**
Derivative financial liabilities					
Foreign exchange swaps	–	1,235	–	**1,235**	**1,235**
Liabilities for which fair values are disclosed					
Loans from banks and other financial institutions, including subordinated debt	–	578,531	–	**578,531**	**585,667**
Customer accounts	–	28,967	–	**28,967**	**28,946**

(Thousands of Georgian Lari)

30. Fair value measurements (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values of financial instruments.

Assets and liabilities 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), as well as for floating rate instruments, the carrying amounts are assumed to approximate their fair value.

Derivatives

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

Fixed rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

31. 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.

	2019		***2018***	
	Transaction value	***Balance***	***Transaction value***	***Balance***
Statement of financial position				
Assets				
Loans to customers	–	16	–	30
Liabilities				
Loans from banks and other financial institutions	–	53,457	–	39,153
Profit or loss				
Loans from banks and other financial institutions − interest expense	5,790	–	4,627	–
Other general and administrative expense	1,269	–	1,048	–

Loans from banks and other financial institutions and related interest expense represent transactions with shareholders with significant influence over the Bank. In addition, other general and administrative expenses represent consultation service fees provided by the controlling shareholder. As at 31 December 2019 loans received from related parties mature from March 2020 to September 2026, are denominated in EUR and GEL and carry interest rates from 3.7% to 14.00%.

As at 31 December 2018 loans received from related parties mature from January 2019 to July 2021, are denominated in USD and GEL and carry interest rates from 6.50% to 14.00%.

Transactions with key management personnel

Total remuneration included in employee compensation for the year ended 31 December and represented by short-term benefits:

	2019	***2018***
Members of the Management and Supervisory Board	1,723	1,665

(Thousands of Georgian Lari)

32. Capital adequacy

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

As at 31 December 2019 and 2018, the Bank complied with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

NBG Capital adequacy ratio

Regulatory capital consists of Tier 1 capital, which comprises common shares, reserve fund and retained earnings excluding current year profit or loss less amount of property revaluation reserve transferred to authorised capital, and intangible assets. Certain adjustments are made to IFRS amounts to comply with the NBG regulatory requirements. The other component of regulatory capital is Tier 2 capital, which includes profit or loss of current year, general reserves (not more than 1.25% of risk weighted assets) and subordinated long-term debt.

NBG Basel II/III Capital adequacy ratio

On 18 December 2017, the NBG published and approved amendments in capital adequacy regulation (Decree No. 100/04), according to which the minimum capital requirement ratios have been revised to incorporate Pillar I model and set Capital Conservation, Systemic Risk and Countercyclical buffers (Pillar I Buffers).

As at 31 December 2017 Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Total Capital ratios were set at 4.50%, 6.00% and 8.00% respectively, in addition to which the Bank had to maintain Pillar I Buffers and Pillar II requirements.

Capital Conservation and Countercyclical buffers are set at 2.50% and 0.00%, respectively. Any adjustment of Pillar I Buffers is at NBG's discretion.

On 18 December 2017, the NBG also published and approved Pillar II Requirements in additional to Pillar I Buffers. Pillar II Requirements include the following capital buffers: Unhedged Currency Induced Credit Risk (CICR), Net GRAPE, Credit Portfolio Concentration Risk and Net Stress-Test buffers.

As of 31 December 2019, the Bank had to maintain CICR buffer of 0.53%, primary due to percentage share of foreign currency denominated loans to customers and Net GRAPE buffer as 2.4% of total risk weighted assets. All the remaining Pillar II buffers were preserved at zero (2018: 2.83%).

As of 31 December 2019, under total Basel II/III requirements the Bank was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 13.43%, 7.66% and 9.38%, respectively (2018: 13.33%, 7.72%, 9.46%).

The Bank was in compliance with these capital adequacy ratios as of 31 December 2019 and 2018. The Bank's capital adequacy ratios on this basis were as follows:

	2019	***2018***
Common Equity Tier 1 capital	131,507	109,228
Additional Tier 1 capital	–	–
Tier 1 capital	**131,507**	**109,228**
Tier 2 capital	31,101	12,796
Total regulatory capital	**162,608**	**122,024**
Risk weighted assets	**996,558**	**839,340**
Common Equity Tier 1 capital ratio	**13.2%**	**13.01%**
Total Tier 1 capital adequacy ratio	**13.2%**	**13.01%**
Regulatory capital ratio	**16.32%**	**14.54%**

(Thousands of Georgian Lari)

33. Events after reporting period

Macroeconomic environment and measures addressing newly emerged challenges related to COVID-19 outbreak

Macroeconomic implications of COVID-19 outbreak

In March 2020 the World Health Organization confirmed the novel coronavirus ("COVID-19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on the Georgian economy. First COVID-19 infection in Georgia was confirmed by the National Center for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced a number of measures aimed at containment of the spread of COVID-19, which have significant social and economic impact. Even though the Government has suspended the activities of many businesses in Georgia, the banking sector continues to operate.

COVID-19 pandemic implications on Georgian economy include declining domestic consumption and investment, declining tourism and related businesses, trade, foreign direct investments, remittances and spillover effect on other industries, as well as fluctuation of GEL against foreign currencies.

The Government of Georgia announced a GEL 3.5 billion worth package of support measures designed to mitigate the potential economic impact of the global spread of the COVID-19, including but not limited to:

- Direct financial assistance to effected population;
- Small grant and assistance programs in agriculture;
- Property and personal income taxes deferred for four months for companies that operate in the tourism industry;
- Doubling the volume of VAT refunds to companies, with the aim of supplying them with working capital;
- Designing a state program to co-finance interest payments on bank loans for 4-50 room hotels for a six months period;
- Boosting capital expenditure projects with the aim of providing additional economic injections;
- Price fixing for specific food products by subsidizing corresponding businesses.

Following measures were taken by the NBG to support the banking sector:

- The granting of repayment 3-month grace periods of up to three months on loans to from affected industries will not be recognized as restructurings by the NBG for statutory loss provisioning and capital adequacy purposes;
- Reliefs provided to capital adequacy requirements, including postponing additional Core Tier 1 and Tier 1 capital requirements and allowing banks to use 2.5% CET1 conservation buffer;
- Easing certain retail credit regulations around income verification, LTV ratios and maximal mortgage terms;
- Committing to provide GEL liquidity to commercial banks and microfinance organizations with swap operations with a maximum limit of USD 400 million.

Impact of COVID-19 outbreak on the Bank

As a result of global pandemic in relation to COVID-19, the bank has introduced several resilience protocols and a comprehensive business continuity plan aimed at protecting the health and safety of all its staff and customers. The Bank's Emergency Management Committee meets on a weekly basis to review and revise crisis response plan, which is further brought to extraordinary Supervisory Board meetings, held every two weeks, or as and when required.

The management considers the following factors to be relevant in assessment of the Bank's and its business model resilience to the crisis:

- More than 90% of the Bank's loan portfolio is denominated in GEL, limiting the negative impact of any GEL devaluation against foreign currencies;
- Agro loans account for circa 52% of the total loan portfolio and the management expects this segment to be the most resilient to the crisis. The Bank's exposure to tourism segment as at 31 December 2019 was GEL 48,889 (5.8% of Bank's gross loan portfolio);
- the Bank has low reliance on customer deposits, accounting for 11% of Bank's total funding;
- the Bank has sufficient cushions in liquidity and capital adequacy prudential ratios as at 31 December 2019;
- the Bank's shareholders cancelled the dividend distribution for 2019 and are assisting in the crisis-management. Triodos SICAV II (Triodos Microfinance Fund) and Triodos Custody B.V., Triodos Fair Share Fund, as shareholders, provided in April 2020 GEL 13,644 subordinated loan to reinforce the Bank's regulatory capital.

Information sources: NBG, Galt and Taggart, TBC Research

(Thousands of Georgian Lari)

33. Events after reporting period (continued)

Macroeconomic environment and measures addressing newly emerged challenges related to COVID-19 outbreak (continued)

The management of the Bank, as part of its business continuity plan, developed a stress scenario covering period of at least 12 months since the date of the authorization of these financial statements for issuance. The key stressed scenario assumptions included:

- Deposit outflow in up to June 2020 and increase in interest rates over certain categories of deposits;
- Increase in cost of risk ratio; or
- Decrease in loan principal and interest repayments due to rescheduling, grace periods and cost of risk increase.

The Bank works intensively with lenders to obtain new funding and renegotiate the terms of the existing facilities. Throughout January-April 2020, the Bank attracted GEL 160,857 new borrowings from international financial institutions (of which GEL 13,644 subordinated), and agreed to reschedule payments due in 2020 in relation to borrowings with carrying value of GEL 65,563 as at 31 December 2019. The Bank is at the advanced stage of communication with several other lenders to reschedule 2020 payments to later periods.