# JSC Credo Bank

## Financial statements

*Year ended 31 December 2020*
*together with independent auditor's report*

# Contents

## Independent auditor's report



## Notes to the financial statements

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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 2020, 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 2020 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 of Accountants' (IESBA) International 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 2020 Annual Report*

Other information consists of the information included in Bank's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2020 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.
- 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

23 April 2021

## Statement of financial position

## As at 31 December 2020

*(Thousands of Georgian Lari)*

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 165,631 | 76,941 |
| Amounts due from credit institutions | 6 | 50,351 | 23,811 |
| Derivative financial assets | 7 | 2,944 | 1,160 |
| Loans to customers | 8 | 1,036,426 | 834,500 |
| Investment securities | 9 | 43,512 | 29,051 |
| Current income tax asset | 13 | 2,397 | – |
| Right–of–use assets | 12 | 9,418 | 12,230 |
| Property and equipment | 10 | 10,638 | 10,125 |
| Intangible assets | 11 | 10,377 | 8,697 |
| Other financial assets | 14 | 9,525 | 6,492 |
| Other non–financial assets | 15 | 9,105 | 7,225 |
| **Total assets** | | **1,350,324** | **1,010,232** |
| **Liabilities** | | | |
| Derivative financial liabilities | 7 | 422 | 394 |
| Customer accounts | 18 | 154,083 | 96,738 |
| Current income tax liabilities | 13 | – | 4,560 |
| Lease liabilities | 12 | 11,125 | 13,226 |
| Loans from banks and other financial institutions | 16,17 | 956,102 | 701,954 |
| Deferred income tax liabilities | 13 | 1,137 | 2,396 |
| Other liabilities | 19 | 27,904 | 16,222 |
| Subordinated debt | 16,17 | 35,913 | 22,054 |
| **Total liabilities** | | **1,186,686** | **857,544** |
| **Equity** | | | |
| Share capital | 20 | 4,400 | 4,400 |
| Other reserves | | – | (92) |
| Retained earnings | | 159,238 | 148,380 |
| **Total equity** | | **163,638** | **152,688** |
| **Total liabilities and equity** | | **1,350,324** | **1,010,232** |

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

Zaal Pirtskhelava Chief Executive Officer

Erekle Zatiashvili Chief Financial Officer

23 April 2021

*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 2020

*(Thousands of Georgian Lari)*

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Interest income calculated using effective interest method** | | | |
| Loans to customers | | 224,248 | 187,221 |
| Investment securities | | 3,126 | 1,450 |
| Cash and balances with banks | | 2,196 | 2,121 |
| | | **229,570** | **190,792** |
| **Interest expense** | | | |
| Loans from banks and other financial institutions | | (92,748) | (64,815) |
| Subordinated debt | | (4,950) | (2,197) |
| Customer accounts | | (5,129) | (2,108) |
| Lease liabilities | | (1,145) | (1,160) |
| | | **(103,972)** | **(70,280)** |
| **Net interest income** | | **125,598** | **120,512** |
| Credit loss expense on financial assets | 8 | (35,952) | (15,518) |
| **Net interest income after credit loss expense** | | **89,646** | **104,994** |
| Fee and commission income | 22 | 26,610 | 22,463 |
| Fee and commission expense | 23 | (6,695) | (5,085) |
| **Net fee and commission income** | | **19,915** | **17,378** |
| Net (losses)/gains from foreign currencies | 24 | (2,694) | 2,057 |
| Other operating income | 25 | 463 | 591 |
| Other operating expense | 26 | (284) | (951) |
| **Net non−interest income** | | **17,400** | **19,075** |
| Personnel expenses | 27 | (62,961) | (59,251) |
| Other general administrative expenses | 28 | (20,644) | (19,213) |
| Depreciation and amortization | 10,11, 12 | (11,108) | (9,597) |
| **Non−interest expenses** | | **(94,713)** | **(88,061)** |
| **Profit before income tax expense** | | **12,333** | **36,008** |
| Income tax expense | 13 | (1,475) | (6,469) |
| **Profit for the year** | | **10,858** | **29,539** |
| 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 | | 92 | (12) |
| **Total comprehensive income for the year** | | **10,950** | **29,527** |

*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 2020

*(Thousands of Georgian Lari)*

| | *Share capital* | *Retained earnings* | *Fair value reserves* | *Total equity* |
|---|---|---|---|---|
| **1 January 2019** | **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** |
| Profit for the year | – | 10,858 | – | **10,858** |
| Other comprehensive loss for the year | – | – | 92 | **92** |
| **Total comprehensive income for the year** | **–** | **10,858** | **92** | **10,950** |
| **31 December 2020** | **4,400** | **159,238** | **–** | **163,638** |

*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 2020

*(Thousands of Georgian Lari)*

| | *Note* | *2020* | *2019* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 225,122 | 193,400 |
| Interest paid | | (99,602) | (70,716) |
| Fees and commissions received | | 26,983 | 23,295 |
| Fees and commissions paid | | (6,694) | (5,085) |
| Realized gains from dealing in foreign currencies | | 3,556 | 2,051 |
| Other income received | | 841 | 1,122 |
| Other expense paid | | (532) | (1,042) |
| Personnel expenses paid | | (61,213) | (60,485) |
| Other operating expenses paid | | (18,627) | (19,304) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **69,834** | **63,236** |
| *Net (increase)/decrease in operating assets and liabilities* | | | |
| Derivative financial assets | | – | 57 |
| Amounts due from credit institutions | | (20,895) | (5,142) |
| Loans to customers | | (213,059) | (167,473) |
| Other assets | | (2,922) | (3,071) |
| *Net increase/(decrease) in operating liabilities* | | | |
| Customer accounts | | 54,062 | 67,364 |
| Other financial liabilities | | 893 | 563 |
| **Net cash flows used in operating activities before income tax** | | **(112,087)** | **(44,466)** |
| Income tax paid | | (9,690) | (2,664) |
| **Net cash used in operating activities** | | **(121,777)** | **(47,130)** |
| **Cash flows used in investing activities** | | | |
| Purchase of property, equipment and intangible assets | | (8,093) | (7,271) |
| Acquisition of investment securities | | (13,904) | (29,051) |
| Proceeds from sale of property and equipment | | 27 | 436 |
| **Net cash used in investing activities** | | **(21,970)** | **(35,886)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings and subordinated loans | 17 | 471,756 | 455,728 |
| Repayment of borrowings and subordinated loans | 17 | (237,900) | (338,723) |
| Repayment of lease liabilities | 12 | (5,326) | (4,006) |
| Dividends paid | 20 | – | (6,316) |
| **Net cash from financing activities** | | **228,530** | **106,683** |
| **Net increase in cash and cash equivalents** | | **84,783** | **23,667** |
| Effect of exchange rates changes on cash and cash equivalents | | 3,907 | 1,063 |
| Cash and cash equivalents, beginning | 5 | 76,941 | 52,211 |
| **Cash and cash equivalents, ending** | 5 | **165,631** | **76,941** |

*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") a Georgian commercial bank holding a full banking license form the National Bank of Georgia (the "NBG"). 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. 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 2020 and 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% |

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

As at 31 December 2019 and 2020 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.

### Effect of COVID−19 pandemic

Due to the rapid spread of COVID−19 pandemic in 2020 many governments, including the Georgian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Government and the National Bank of Georgia to counter the economic downturn caused by the COVID−19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID−19 containment measures.

The Bank continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

To the extent that information is available as at 31 December 2020, the Bank has reflected revised estimates of expected future cash flows in its expected credit loss (ECL) assessment (Note 8).

*(Thousands of Georgian Lari)*

## 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.

## 3. Summary of accounting policies

### Changes in accounting policies

The Bank has early adopted Amendment to IFRS 16 *COVID−19−Related Rent Concessions,* which provides lessees with an exemption from assessing whether a COVID−19−related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Bank. This amendment did not materially affect the financial statements of the Bank.

Several other amendments effective since 1 January 2020 were applied but do not have an 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.

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.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### 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.

*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 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.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### Financial assets and liabilities (continued)

*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 judgment 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 minim is 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.

***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.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### 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.

### 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.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### Borrowings and amounts due to customers

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 and amounts due to customers are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings and amounts due to customers 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.

### Leases

*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.

*Right−of−use assets*

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.

*Lease liabilities*

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.

*Short−term leases and leases of low value assets*

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.

### 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.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### 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.

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 2020 and 31 December 2019 were 3.2766 GEL and 2.8667 GEL to 1 USD, respectively.

*(Thousands of Georgian Lari)*

## 3. Summary of accounting policies (continued)

### Standards issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

*IFRS 17 Insurance contracts*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non−life, direct insurance and re−insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

*IFRS 9 Financial Instruments − Fees in the '10 per cent' test for derecognition of financial liabilities*

As part of its 2018−2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

*Interest Rate Benchmark Reform − Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16*

In August 2020 the IASB issued *Interest Rate Benchmark Reform − Phase 2* Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk−free−rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank will apply IBOR reform Phase 2 from 1 January 2021. The Bank is currently assessing the impact of the amendments on its financial statements.

*(Thousands of Georgian Lari)*

## 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 30.

*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 exchange rates, and the effect on PDs, EADs and LGDs;
- ► Selection of forward−looking macroeconomic scenarios to derive the economic inputs into the ECL models.

As at 31 December 2020, the Bank introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID−19 pandemic. In particular, the Bank revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures, due to the reason that major part of this portfolio started performing in normal way since 3rd quarter of 2020. The Bank also updated forward looking information, including forecasts of macroeconomic indicators and scenarios' weights. The Bank applied post−model adjustments and additional sectoral overlays based on ratings shift or stressed parameters to reflect appropriately the uncertainty associated with the spread of COVID−19 pandemic. In order to reflect the significant residual uncertainty related to the potential effect of the further economic disruption being caused by COVID−19 and the prospects of future recovery, the Bank updated the ECL model for the calculation of the macro adjustment to point in time PD, moving from the Vasicek model to a linear regression model with an increased number of macroeconomic variables. The new model was prepared with consultation of and lately validated by KPMG Georgia. The updated model resulted in an increase of PDs.

Based on ECL methodology restructuring status was indicator of SICR event, however due to the grace period granted within the Government program for such loans modification of schedule was not considered as credit risk deterioration thus it doesn't result in change of the stage, except for the certain loans in tourism, restaurant and hotel service industries. From loans which were rescheduled due to COVID−19, the Bank considered that significant increase in credit risk occurred for the exposures from tourism segment and those from the segments having income source from hotel and restaurant services. Accordingly, loans to customers with gross carrying value of GEL 9,560 were transferred from stage 1 to stage 2 and lifetime ECL was recognized in their respect as at 31 December 2020.

The cumulative amount of model revision, post−model and overlay adjustments to account for the effect of the crisis, recognized as credit loss expense in 2020 profit or loss updated was GEL 9,793.

Based on the considerations outlined above, the management considers that the effect of COVID−19 crisis have been property reflected in the Bank's ECL estimate as at 31 December 2020. Further information on ECL and credit quality is provided in Notes 8 and 29.

*(Thousands of Georgian Lari)*

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *2020* | *2019* |
|---|---|---|
| Cash on hand and in ATMs | 49,935 | 32,177 |
| Current accounts with the NBG | 24,508 | 10,714 |
| Current accounts with other credit institutions | 91,188 | 34,050 |
| **Cash and cash equivalents** | **165,631** | **76,941** |

As at 31 December 2020, 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 2020 and 2019. As at 31 December 2020, current accounts and time deposits with credit institutions denominated in USD and GEL represent 30.77% and 47.06% of total current and time deposits, respectively (31 December 2019: USD 50.23% and GEL 25.49%).

## 6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | *2020* | *2019* |
|---|---|---|
| Obligatory reserve with the NBG | 50,351 | 23,811 |
| **Amounts due from credit institutions** | **50,351** | **23,811** |

The Bank is required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% to 25% (2019: 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 −0.25% (USD) and 8% (GEL) on these deposits (2019: 1.25% (USD) and 9% (GEL).

## 7. Derivative financial instruments

The Bank enters into derivative financial instruments to mitigate currency risk (Note 29). 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.

| | *2020* | | | *2019* | | |
|---|---|---|---|---|---|---|
| | *Notional* | *Fair values* | | *Notional* | *Fair value* | |
| | *amount* | *Asset* | *Liability* | *amount* | *Asset* | *Liability* |
| **Foreign currency contracts** | | | | | | |
| Cross−currency swaps − domestic | 65,139 | 9 | 422 | 15,772 | 197 | 394 |
| Cross−currency swaps − foreign | 16,383 | 2,935 | − | 14,339 | 963 | − |
| **Total derivative assets/liabilities** | | **2,944** | **422** | | **1,160** | **394** |

Contracts are concluded with Georgian and foreign entities.

As of 31 December 2020, and 2019, 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. In respect of swap assets with fair value of GEL 2,935 as at 31 December 2020 (2019: GEL 963), the Bank recognized GEL 3,080 (2019: GEL 2,135) as cash collateral, presented in Other liabilities (Note 19). The Bank's claims under the swap agreements can be offset against the collateral in certain circumstances as per the terms of the offsetting provisions in the relevant framework agreement. As at 31 December 2020 and 2019, derivative assets and respective collateral received did not qualify to offset in accordance with IAS 32, *Financial Instruments: Presentation.*

*(Thousands of Georgian Lari)*

## 8. Loans to customers

Loans to customers' breakdown per product general type was as follows:

| | *2020* | *2019* |
|---|---|---|
| Agro loans | 530,225 | 440,514 |
| Urban loans | 360,002 | 281,951 |
| Tourism loans | 54,629 | 48,889 |
| Other | 124,742 | 74,582 |
| **Gross loans to customers** | **1,069,598** | **845,936** |
| Less: expected credit losses | (33,172) | (11,436) |
| **Loans to customers** | **1,036,426** | **834,500** |

Other loans include those issued to clients with non‒business income, which is salary income.

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:

| | *2020* | *2019* | *Reallocation** | *1 January 2020, as reallocated* |
|---|---|---|---|---|
| Agro micro loans | 381,233 | 214,618 | 101,919 | 316,537 |
| Consumer loans | 243,391 | 58,264 | 118,002 | 176,266 |
| Urban micro loans | 220,483 | 142,182 | 19,967 | 162,149 |
| Agro, tourism and urban SME loans | 203,809 | 169,188 | ‒ | 169,188 |
| Tourism micro loans | 16,186 | 17,864 | 4 | 17,868 |
| Pawnshop loans | 4,496 | 3,928 | ‒ | 3,928 |
| Agro, tourism and urban instant approval micro loans | ‒ | 239,892 | (239,892) | ‒ |
| **Gross loans to customers** | **1,069,598** | **845,936** | **‒** | **845,936** |
| Less: expected credit losses | (33,172) | (11,436) | ‒ | (11,436) |
| **Loans to customers** | **1,036,426** | **834,500** | **‒** | **834,500** |

* In 2020, following changes in its IT systems and internal processes, the Bank reallocated Agro, tourism and urban instant approval micro loans to the other relevant segments. The reallocation was reflected prospectively in the current period movements of gross carrying values and ECL as presented below, as the management deemed impracticable to estimate the effect of the reallocation on a fully retrospective basis.

The Bank provides loans in GEL, USD and EUR. 90% of the gross loan portfolio is denominated in GEL (2019: 90%).

### Expected credit losses on loans to customers at amortised cost

An aggregate analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 is as follows:

| *Loans to Customers* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **820,903** | **21,226** | **3,751** | **56** | **845,936** |
| New assets originated or purchased | 1,043,130 | ‒ | ‒ | ‒ | **1,043,130** |
| Assets repaid | (820,477) | (8,357) | (690) | (51) | **(829,575)** |
| Transfers to Stage 1 | 3,094 | (2,833) | (261) | ‒ | **‒** |
| Transfers to Stage 2 | (110,442) | 110,684 | (242) | ‒ | **‒** |
| Transfers to Stage 3 | (110) | (19,097) | 19,207 | ‒ | **‒** |
| Amounts written off | ‒ | ‒ | (19,087) | (9) | **(19,096)** |
| Foreign exchange and other movements | 13,790 | 5,796 | 9,610 | 7 | **29,203** |
| **At 31 December 2020** | **949,888** | **107,419** | **12,288** | **3** | **1,069,598** |

*(Thousands of Georgian Lari)*

## 8. Loans to customers (continued)

### Expected credit losses on loans to customers at amortised cost (continued)

| *Loans to customers* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 1 January 2020** | **5,902** | **2,935** | **2,599** | **–** | **11,436** |
| New assets originated or purchased | 12,083 | – | – | – | **12,083** |
| Assets repaid | (10,348) | (2,016) | (831) | (28) | **(13,223)** |
| Transfers to Stage 1 | 66 | (59) | (7) | – | **–** |
| Transfers to Stage 2 | (13,117) | 13,153 | (36) | – | **–** |
| Transfers to Stage 3 | – | (10,436) | 10,436 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 15,384 | 9,687 | 7,041 | 35 | **32,147** |
| Amounts written off | – | – | (19,087) | (9) | **(19,096)** |
| Foreign exchange and other movements | 146 | 340 | 9,337 | 2 | **9,825** |
| **At 31 December 2020** | **10,116** | **13,604** | **9,452** | **–** | **33,172** |

Per segment analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 is as follows:

| ***Agro, tourism and urban instant approval micro loans*** | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 31 December 2019** | **237,652** | **1,221** | **1,019** | **–** | **239,892** |
| Reallocated to other segments based on core segment type | (237,652) | (1,221) | (1,019) | – | (239,892) |
| **1 Jan 2020, as reallocated** | **–** | **–** | **–** | **–** | **–** |

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

### Allowance for impairment of loans to customers at amortised cost

| ***Agro, tourism and urban instant approval micro loans*** | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 31 December 2019** | **1,839** | **449** | **848** | **–** | **3,136** |
| Reallocated to other segments based on core segment type | (1,839) | (449) | (848) | – | **(3,136)** |
| **1 Jan 2020, as reallocated** | **–** | **–** | **–** | **–** | **–** |

*(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 31 December 2019** | **203,639** | **9,530** | **1,446** | **3** | **214,618** |
| Reallocated from Instant Approval Loans | 100,772 | 588 | 559 | – | **101,919** |
| **1 Jan 2020, as reallocated** | **304,411** | **10,118** | **2,005** | **3** | **316,537** |
| New assets originated or purchased | 368,775 | – | – | – | **368,775** |
| Assets repaid | (300,702) | (3,966) | (236) | (1) | **(304,905)** |
| Transfers to Stage 1 | 685 | (558) | (127) | – | **–** |
| Transfers to Stage 2 | (19,616) | 19,802 | (186) | – | **–** |
| Transfers to Stage 3 | (32) | (5,456) | 5,488 | – | **–** |
| Amounts written off | – | – | (7,165) | – | **(7,165)** |
| Foreign exchange and other movements | 4,241 | 495 | 3,254 | 1 | **7,991** |
| **At 31 December 2020** | **357,762** | **20,435** | **3,033** | **3** | **381,233** |

| *Agro micro loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 31 December 2019** | **1,422** | **1,144** | **961** | **–** | **3,527** |
| Reallocated from Instant Approval Loans | 761 | 230 | 467 | – | **1,458** |
| **1 Jan 2020, as reallocated** | **2,183** | **1,374** | **1,428** | **–** | **4,985** |
| New assets originated or purchased | 3,407 | – | – | – | **3,407** |
| Assets repaid | (2,569) | (692) | (365) | (1) | **(3,627)** |
| Transfers to Stage 1 | 19 | (17) | (2) | – | **–** |
| Transfers to Stage 2 | (3,261) | 3,282 | (21) | – | **–** |
| Transfers to Stage 3 | – | (3,194) | 3,194 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 3,318 | 2,181 | 1,895 | 1 | **7,395** |
| Amounts written off | – | – | (7,165) | – | **(7,165)** |
| Foreign exchange and other movements | 41 | 78 | 3,215 | – | **3,334** |
| **At 31 December 2020** | **3,138** | **3,012** | **2,179** | **–** | **8,329** |

| *Agro, tourism and urban SME loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **162,681** | **5,959** | **505** | **43** | **169,188** |
| New assets originated or purchased | 101,302 | – | – | – | **101,302** |
| Assets repaid | (82,101) | (1,267) | (69) | (46) | **(83,483)** |
| Transfers to Stage 1 | 1,241 | (1,203) | (38) | | **–** |
| Transfers to Stage 2 | (45,567) | 45,567 | – | – | **–** |
| Transfers to Stage 3 | (38) | (1,116) | 1,154 | – | **–** |
| Amounts written off | – | – | (1,586) | – | **(1,586)** |
| Foreign exchange and other movements | 14,087 | 3,732 | 566 | 3 | **18,388** |
| **At 31 December 2020** | **151,605** | **51,672** | **532** | **–** | **203,809** |

*(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 2020** | **654** | **860** | **237** | **–** | **1,751** |
| New assets originated or purchased | 1,263 | – | – | – | **1,263** |
| Assets repaid | (496) | (466) | (77) | (23) | **(1,062)** |
| Transfers to Stage 1 | (36) | 36 | – | – | **–** |
| Transfers to Stage 2 | (2,921) | 2,921 | – | – | **–** |
| Transfers to Stage 3 | – | (439) | 439 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 2,281 | 2,933 | 716 | 23 | **5,953** |
| Amounts written off | – | – | (1,586) | – | **(1,586)** |
| Foreign exchange and other movements | 23 | (136) | 564 | – | **451** |
| **At 31 December 2020** | **768** | **5,709** | **293** | **–** | **6,770** |

| *Urban micro loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 31 December 2019** | **138,099** | **3,591** | **482** | **10** | **142,182** |
| Reallocated from Instant Approval Loans | 19,790 | 104 | 73 | – | **19,967** |
| **1 Jan 2020, as reallocated** | **157,889** | **3,695** | **555** | **10** | **162,149** |
| New assets originated or purchased | 208,395 | – | – | – | **208,395** |
| Assets repaid | (148,478) | (1,795) | (146) | (4) | **(150,423)** |
| Transfers to Stage 1 | 418 | (384) | (34) | – | **–** |
| Transfers to Stage 2 | (20,070) | 20,093 | (23) | – | **–** |
| Transfers to Stage 3 | (37) | (3,390) | 3,427 | – | **–** |
| Amounts written off | – | – | (3,044) | (9) | **(3,053)** |
| Foreign exchange and other movements | 1,138 | 760 | 1,514 | 3 | **3,415** |
| **At 31 December 2020** | **199,255** | **18,979** | **2,249** | **–** | **220,483** |

| *Urban micro loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 31 December 2019** | **955** | **326** | **299** | **–** | **1,580** |
| Reallocated from Instant Approval Loans | 149 | 35 | 61 | – | **245** |
| **1 Jan 2020, as reallocated** | **1,104** | **361** | **360** | **–** | **1,825** |
| New assets originated or purchased | 1,995 | – | – | – | **1,995** |
| Assets repaid | (1,413) | (303) | (125) | (4) | **(1,845)** |
| Transfers to Stage 1 | 15 | (12) | (3) | – | **–** |
| Transfers to Stage 2 | (2,192) | 2,194 | (2) | – | **–** |
| Transfers to Stage 3 | – | (1,423) | 1,423 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 2,449 | 1,535 | 1,508 | 11 | **5,503** |
| Amounts written off | – | – | (3,044) | (9) | **(3,053)** |
| Foreign exchange and other movements | 46 | 159 | 1,433 | 2 | **1,640** |
| **At 31 December 2020** | **2,004** | **2,511** | **1,550** | **–** | **6,065** |

*(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 31 December 2019** | **57,411** | **632** | **221** | **–** | **58,264** |
| Reallocated from Instant Approval Loans | 117,086 | 529 | 387 | – | **118,002** |
| **1 Jan 2020, as reallocated** | **174,497** | **1,161** | **608** | **–** | **176,266** |
| New assets originated or purchased | 350,134 | – | – | – | **350,134** |
| Assets repaid | (273,725) | (914) | (231) | – | **(274,870)** |
| Transfers to Stage 1 | 708 | (646) | (62) | – | **–** |
| Transfers to Stage 2 | (15,330) | 15,362 | (32) | – | **–** |
| Transfers to Stage 3 | (3) | (8,946) | 8,949 | – | **–** |
| Amounts written off | – | – | (7,058) | – | **(7,058)** |
| Foreign exchange and other movements | (5,563) | 309 | 4,173 | – | **(1,081)** |
| **At 31 December 2020** | **230,718** | **6,326** | **6,347** | **–** | **243,391** |

| *Consumer loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 31 December 2019** | **921** | **142** | **175** | **–** | **1,238** |
| Reallocated from Instant Approval Loans | 929 | 184 | 320 | – | **1,433** |
| **1 Jan 2020, as reallocated** | **1,850** | **326** | **495** | – | **2,671** |
| New assets originated or purchased | 5,234 | – | – | – | **5,234** |
| Assets repaid | (5,782) | (529) | (252) | – | **(6,563)** |
| Transfers to Stage 1 | 68 | (66) | (2) | – | **–** |
| Transfers to Stage 2 | (4,512) | 4,525 | (13) | – | **–** |
| Transfers to Stage 3 | – | (5,292) | 5,292 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 7,235 | 2,398 | 2,836 | – | **12,469** |
| Amounts written off | – | – | (7,058) | – | **(7,058)** |
| Foreign exchange and other movements | 42 | 201 | 4,069 | – | **4,312** |
| **At 31 December 2020** | **4,135** | **1,563** | **5,367** | **–** | **11,065** |

| *Pawnshop loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 1 January 2020** | **3,898** | **30** | **–** | **–** | **3,928** |
| New assets originated or purchased | 2,438 | – | – | – | **2,438** |
| Assets repaid | (1,815) | (31) | (1) | – | **(1,847)** |
| Transfers to Stage 1 | 5 | (5) | – | – | **–** |
| Transfers to Stage 2 | (356) | 356 | – | – | **–** |
| Transfers to Stage 3 | – | (38) | 38 | – | **–** |
| Amounts written off | – | – | (37) | – | **(37)** |
| Foreign exchange and other movements | (12) | 5 | 21 | – | **14** |
| **At 31 December 2020** | **4,158** | **317** | **21** | **–** | **4,496** |

*(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 2020** | **64** | **1** | **–** | **–** | **65** |
| New assets originated or purchased | 46 | – | – | – | **46** |
| Assets repaid | (51) | (1) | (3) | – | **(55)** |
| Transfers to Stage 1 | – | – | – | – | – |
| Transfers to Stage 2 | (21) | 21 | – | – | – |
| 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 | (23) | 62 | 5 | – | **44** |
| Amounts written off | – | – | (37) | – | **(37)** |
| Foreign exchange and other movements | – | 1 | 16 | – | **17** |
| **At 31 December 2020** | **15** | **54** | **11** | **–** | **80** |

| *Tourism micro loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 31 December 2019** | **17,523** | **263** | **78** | **–** | **17,864** |
| Reallocated from Instant Approval Loans | 4 | – | – | – | **4** |
| **1 Jan 2020, as reallocated** | **17,527** | **263** | **78** | – | **17,868** |
| New assets originated or purchased | 12,086 | – | – | – | **12,086** |
| Assets repaid | (13,656) | (384) | (7) | – | **(14,047)** |
| Transfers to Stage 1 | 37 | (37) | – | – | **–** |
| Transfers to Stage 2 | (9,503) | 9,504 | (1) | – | **–** |
| Transfers to Stage 3 | – | (151) | 151 | – | **–** |
| Amounts written off | – | – | (197) | – | **(197)** |
| Foreign exchange and other movements | (101) | 495 | 82 | – | **476** |
| **At 31 December 2020** | **6,390** | **9,690** | **106** | **–** | **16,186** |

| *Tourism micro loans* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 1 January 2020** | **47** | **13** | **79** | **–** | **139** |
| New assets originated or purchased | 138 | – | – | – | **138** |
| Assets repaid | (37) | (25) | (9) | – | **(71)** |
| Transfers to Stage 2 | (210) | 210 | – | – | **–** |
| Transfers to Stage 3 | – | (58) | 58 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 124 | 578 | 81 | – | **783** |
| Amounts written off | – | – | (197) | – | **(197)** |
| Foreign exchange and other movements | (6) | 37 | 40 | – | **71** |
| **At 31 December 2020** | **56** | **755** | **52** | **–** | **863** |

*(Thousands of Georgian Lari)*

## 8. Loans to customers (continued)

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

An aggregate 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:

| *Loans to Customers* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying value as at 1 January 2019** | **661,375** | **24,585** | **3,123** | **166** | **689,249** |
| New assets originated or purchased | 957,968 | – | – | – | **957,968** |
| Assets repaid | (786,061) | (5,294) | (701) | (45) | **(792,101)** |
| Transfers to Stage 1 | 6,227 | (5,872) | (355) | – | **–** |
| Transfers to Stage 2 | (19,900) | 20,505 | (605) | – | **–** |
| Transfers to Stage 3 | (55) | (13,388) | 13,443 | – | **–** |
| Amounts written off | – | – | (19,000) | (143) | **(19,143)** |
| Foreign exchange and other movements[1] | 1,349 | 690 | 7,846 | 78 | **9,963** |
| **At 31 December 2019** | **820,903** | **21,226** | **3,751** | **56** | **845,936** |

| *Loans to Customers* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* | *Total* |
|---|---|---|---|---|---|
| **ECL as at 1 January 2019** | **4,787** | **2,547** | **2,164** | **8** | **9,506** |
| New assets originated or purchased | 7,156 | – | – | – | **7,156** |
| Assets repaid | (11,213) | (1,002) | (171) | (51) | **(12,437)** |
| Transfers to Stage 1 | 113 | (100) | (13) | – | **–** |
| Transfers to Stage 2 | (6,362) | 6,432 | (70) | – | **–** |
| Transfers to Stage 3 | (90) | (8,930) | 9,020 | – | **–** |
| Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs | 6,371 | 3,552 | 9,350 | 187 | **19,460** |
| Amounts written off | – | – | (19,000) | (143) | **(19,143)** |
| Foreign exchange and other movements | 5,140 | 436 | 1,319 | (1) | **6,894** |
| **At 31 December 2019** | **5,902** | **2,935** | **2,599** | **–** | **11,436** |

Per segment 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** |

*(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* |
|---|---|---|---|---|---|
| **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** |

*(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* |
|---|---|---|---|---|---|
| **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** |

| *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** |

*(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* |
|---|---|---|---|---|---|
| **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** |

| *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** |

*(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* |
|---|---|---|---|---|---|
| **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** |

| *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** |

*(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* |
|---|---|---|---|---|---|
| **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** |

| *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** |

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 2020 and 2019 is as follows:

| *2020* | *ECL charge, gross of recovery* | *Recovery* | *Credit loss expense in profit or loss* |
|---|---|---|---|
| Consumer loans | 15,452 | (1,264) | 14,188 |
| Agro micro loans | 10,509 | (2,180) | 8,329 |
| Urban micro loans | 7,293 | (1,025) | 6,268 |
| Agro, tourism and urban SME loans | 6,605 | (30) | 6,575 |
| Tourism micro loans | 921 | (381) | 540 |
| Pawnshop loans | 52 | – | 52 |
| Agro, tourism and urban instant approval micro loans | – | – | – |
| | **40,832** | **(4,880)** | **35,952** |

| *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** |

*(Thousands of Georgian Lari)*

## 8. Loans to customers (continued)

### 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.

During 2020, the Bank has modified the terms and conditions of certain corporate and commercial loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID−19 pandemic. The Bank considered these modifications to be non−substantial. The Bank recognized net modification loss in GEL 642 in the statement of profit or loss for the year ended 31 December 2020.

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.

| | ***2020*** | ***2019*** |
|---|---|---|
| Restructured loans as at 31 December | 97,499 | 20,498 |

### 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 2020 and 2019, collateral does not have any material impact on ECL on Stage 3 loans.
Note 15 includes information about repossessed collateral.

### 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:

| | ***2020*** | ***2019*** |
|---|---|---|
| Agriculture | 398,003 | 349,093 |
| Trade | 242,944 | 193,219 |
| Consumer | 184,658 | 186,575 |
| Service | 187,552 | 86,915 |
| Manufacturing | 33,495 | 17,836 |
| Transportation | 20,980 | 12,035 |
| Other | 1,966 | 263 |
| | **1,069,598** | **845,936** |
| Less: expected credit losses | (33,172) | (11,436) |
| **Net loans to customers** | **1,036,426** | **834,500** |

## 9. Investment securities

| | ***2020*** | ***2019*** |
|---|---|---|
| **Debt securities at amortised cost** | | |
| Treasury bills of the Ministry of Finance (BB rated) | 17,390 | 2,916 |
| Corporate bonds of foreign issuers (AAA rated) | 26,122 | 26,135 |
| **Debt securities at amortised cost** | **43,512** | **29,051** |

All balances of investment securities are held at amortized cost and are allocated to Stage 1. ECL was not material as at 31 December 2020 and 2019.

*(Thousands of Georgian Lari)*

## 10. Property and equipment

The movements in property and equipment were as follows in 2020:

| | *Land and buildings (including leasehold improvement)* | *Furniture, fixtures and equipment* | *Motor vehicles* | *IT and computer equipment* | *Total* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **31 December 2019** | **1,343** | **10,122** | **3,429** | **9,205** | **24,099** |
| Additions | 81 | 2,688 | 240 | 1,296 | **4,305** |
| Disposals | – | (379) | (44) | (107) | **(530)** |
| **31 December 2020** | **1,424** | **12,431** | **3,625** | **10,394** | **27,874** |
| **Accumulated depreciation** | | | | | |
| **31 December 2019** | **(629)** | **(6,231)** | **(2,159)** | **(4,955)** | **(13,974)** |
| Depreciation charge | (290) | (1,806) | (212) | (1,457) | **(3,765)** |
| Disposals | – | 364 | 44 | 95 | **503** |
| **31 December 2020** | **(919)** | **(7,673)** | **(2,327)** | **(6,317)** | **(17,236)** |
| **Net book value as at 31 December 2019** | **714** | **3,891** | **1,270** | **4,250** | **10,125** |
| **Net book value as at 31 December 2020** | **505** | **4,758** | **1,298** | **4,077** | **10,638** |

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** |

The gross amount of fully depreciated property and equipment that is still in use was GEL 9,248 (2019: GEL 6,413).

## 11. Intangible assets

The movements in intangible assets were as follows in 2020:

| | *Licenses, rights, patents* | *Core banking software* | *Other software* | *Customer relations* | *Total* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **31 December 2019** | **5,542** | **2,751** | **1,677** | **3,238** | **13,208** |
| Additions | 494 | 1,536 | 1,785 | – | **3,815** |
| **31 December 2020** | **6,036** | **4,287** | **3,462** | **3,238** | **17,023** |
| **Accumulated amortization** | | | | | |
| **31 December 2019** | **(2,112)** | **(885)** | **(650)** | **(864)** | **(4,511)** |
| Amortization charge | (572) | (515) | (402) | (646) | **(2,135)** |
| **31 December 2020** | **(2,684)** | **(1,400)** | **(1,052)** | **(1,510)** | **(6,646)** |
| **Net book value as at 31 December 2019** | **3,430** | **1,866** | **1,027** | **2,374** | **8,697** |
| **Net book value as at 31 December 2020** | **3,352** | **2,887** | **2,410** | **1,728** | **10,377** |

*(Thousands of Georgian Lari)*

## 11. Intangible assets (continued)

The movements in intangible assets 2019 were as follows:

| | *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** |

## 12. Leases

The movements in right−of−use assets 2020 were as follows:

| | *Right−of−use assets (offices and other real estate)* |
|---|---|
| **31 December 2019** | **16,257** |
| Additions | 2,398 |
| Disposals and write−offs | (494) |
| **31 December 2020** | **18,161** |
| **Accumulated depreciation** | |
| **31 December 2019** | **(4,027)** |
| Depreciation charge | (5,210) |
| Disposals and write−offs | 494 |
| **31 December 2020** | **(8,743)** |
| **Net book value** | |
| **31 December 2019** | **12,230** |
| **31 December 2020** | **9,418** |

The movement in lease liabilities 2020 was as follows:

| | *Lease liabilities* |
|---|---|
| **As at 31 December 2019** | **13,226** |
| Additions | 2,525 |
| Interest expense | 1,145 |
| Payments | (6,472) |
| Foreign exchange effect | 701 |
| **As at 31 December 2020** | **11,125** |

*(Thousands of Georgian Lari)*

## 12. Leases (continued)

The movements in right−of−use assets 2019 were as follows:

| | *Right−of−use assets (offices and other real estate)* |
|---|---|
| **31 December 2018** | **–** |
| IFRS 16 transition | 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 2019 was as follows:

| | *Lease liabilities* |
|---|---|
| **As at 1 January 2019** | **–** |
| IFRS 16 transition | 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 232 in 2020 (2019: 138). Total cash outflows for leases amounted to GEL 6,704 (2019: 5,298). The Bank had non−cash additions to right−of−use assets and lease liabilities of GEL 2,398 in 2020 (2019: 4,033). Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognized amounted to GEL 18,273 as at 31 December 2020 (2019: 14,694).

## 13. Taxation

The corporate income tax expense comprises:

| | *2020* | *2019* |
|---|---|---|
| Current year tax charge | 2,734 | 6,610 |
| Deferred taxation charge due to origination and reversal of temporary differences | (1,259) | (141) |
| **Total income tax expense** | **1,475** | **6,469** |

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:

| | *2020* | *2019* |
|---|---|---|
| **Profit before tax** | **12,333** | **36,008** |
| Statutory tax rate | 15% | 15% |
| **Theoretical income tax expense at the statutory rate** | **1,850** | **5,401** |
| Non−deductible expenses | 86 | 312 |
| Tax losses utilized during the year | (388) | 1,531 |
| Tax exempt income | (679) | (294) |
| Effect from changes in future tax rates and other movements | 606 | (481) |
| **Income tax expense** | **1,475** | **6,469** |

*(Thousands of Georgian Lari)*

## 13. Taxation (continued)

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 2020. The effect of change in tax regulation on income tax charge for the period was GEL 606 (2019: tax benefit of GEL 481).

### 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 2020 and 2019.

Deferred tax assets and liabilities as of 31 December 2020 and their movements for the respective years comprise:

| | *31 December 2018* | *Recognized in profit or loss* | *31 December 2019* | *Recognized in profit or loss* | *31 December 2020* |
|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | |
| Loan portfolio, except for expected credit losses | 1,009 | 354 | 1,363 | 297 | 1,660 |
| **Deferred tax assets** | **1,009** | **354** | **1,363** | **297** | **1,660** |
| **Tax effect of taxable temporary differences** | | | | | |
| Expected credit losses | (1,451) | (229) | (1,680) | 802 | (878) |
| Property and equipment and intangible assets | (1,680) | 84 | (1,596) | 326 | (1,270) |
| Loans and borrowings | (318) | (58) | (376) | (132) | (508) |
| Salaries payable and other liabilities | (97) | (10) | (107) | (34) | (141) |
| **Deferred tax liabilities** | **(3,546)** | **(213)** | **(3,759)** | **962** | **(2,797)** |
| **Net deferred tax assets/ (liabilities)** | **(2,537)** | **141** | **(2,396)** | **1,259** | **(1,137)** |

## 14. Other financial assets

Other financial assets comprise:

| | *2020* | *2019* |
|---|---|---|
| **Other financial assets** | | |
| Local funds in settlement | 5,907 | 3,983 |
| International money settlements | 1,719 | 847 |
| Accrued life insurance fees | 1,212 | 1,011 |
| Receivables from employees | 92 | 122 |
| Other | 1,985 | 1,764 |
| Less: allowance for impairment of other financial assets | (1,390) | (1,235) |
| **Total financial assets** | **9,525** | **6,492** |

The Bank recognized GEL 155 charge on allowance for impairment of other financial assets (2019: GEL 410), that were presented in other operating expenses.

*(Thousands of Georgian Lari)*

## 15. Other non−financial assets

Other non−financial assets comprise:

| | *2020* | *2019* |
|---|---|---|
| **Other non−financial assets** | | |
| Prepayments and advances | 5,433 | 4,701 |
| Repossessed property | 2,180 | 1,208 |
| Prepaid taxes other than income tax | 817 | 656 |
| Inventory | 675 | 660 |
| **Total non−financial assets** | **9,105** | **7,225** |

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 2020, the Bank repossessed GEL 962 properties (mostly represented by real estate) in non−cash settlement of loans issued (2019: GEL 981). The Bank recognized GEL 230 net gain resulted from reversal of previous year provision adjustment of repossessed properties to their net realizable value as at 31 December 2020 (2019: 421 loss), presented in other operating income (2019: in other operating expenses.)

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

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

| | *2020* | *2019* |
|---|---|---|
| Loans with floating interest rate | 641,084 | 484,183 |
| Loans with fixed interest rate | 315,018 | 217,771 |
| **Loans from banks and other financial institutions** | **956,102** | **701,954** |
| - Measured at amortized cost | 956,102 | 687,550 |
| - Designated at fair value through profit or loss | − | 14,404 |

As at 31 December 2020 loans from banks and other financial institutions mature from March 2021 to December 2030, and are denominate in GEL, USD and EUR. As at 31 December 2019 loans from banks and other financial institutions mature from February 2020 to September 2026.

As at 31 December 2020 and 2019, the Bank was in compliance with all externally imposed financial covenants under loans from banks and other financial institutions and subordinated loans.

During 2020, in response to the effects of COVID−19 pandemic, the Bank renegotiated with the lenders to relax the terms of certain financial covenants, mostly those related to the credit quality of the loan portfolio. The renegotiated terms of the financial covenants provide, in most cases, gradual reversal of the required ratios to pre−pandemic level over 2021−2022 period. The management believes that the Bank will comply with the financial covenants for the foreseeable future or will be able to further renegotiate the prolongation of the effective term of the relaxed financial covenant consistent with the timing of recovery of Georgian economy.

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

| | *Currency* | *Interest rate* | *Maturity* | *2020* | *2019* |
|---|---|---|---|---|---|
| Loan 1 | GEL | 3−month CD rate + 9.02% | December 2025 | 5,051 | 5,053 |
| Loan 2 | GEL | 3−month CD rate + 7.72% | April 2026 | 6,203 | 6,196 |
| Loan 3 | GEL | 3−month CD rate + 7.55% | June 2026 | 4,029 | 4,031 |
| Loan 4 | GEL | 13.55% | September 2026 | 3,362 | 3,387 |
| Loan 5 | GEL | 13.55% | September 2026 | 3,362 | 3,387 |
| Loan 6 | GEL | 16.50% | April 2027 | 6,953 | − |
| Loan 7 | GEL | 16.50% | April 2027 | 6,953 | − |
| **Subordinated loans** | | | | **35,913** | **22,054** |

*(Thousands of Georgian Lari)*

## 16. Loans from banks and other financial institutions and subordinated loans (continued)

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 request of the lender, which would be subject to approval of the General Meeting of the Shareholders of the Bank, 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 2020 and 2019.

Loans 6 and 7 were obtained from non−controlling shareholder of the Bank (Note 31).

## 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 2018** | **585,667** | **13,467** | **599,134** |
| Proceeds from disbursements | 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** |
| Proceeds from disbursement | 457,955 | 13,801 | **471,756** |
| Redemption | (237,900) | − | **(237,900)** |
| Foreign currency translation | 30,808 | − | **30,808** |
| Change in fair value | (92) | − | **(92)** |
| Other | 3,377 | 58 | **3,435** |
| **Carrying amount at 31 December 2020** | **956,102** | **35,913** | **992,015** |

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.

Changes in lease liabilities are provided in Note 12.

## 18. Customer accounts

The amounts due to customers include the following:

| | ***2020*** | ***2019*** |
|---|---|---|
| Time deposits | 68,538 | 43,375 |
| Current accounts | 62,000 | 39,001 |
| Savings accounts | 20,259 | 11,434 |
| Accounts in course of settlement | 3,286 | 2,928 |
| | **154,083** | **96,738** |

## 19. Other liabilities

| | ***2020*** | ***2019*** |
|---|---|---|
| Salaries accrued | 9,190 | 7,440 |
| Payables to shops | 6,064 | 1,459 |
| Payables for goods and services | 4,484 | 3,809 |
| Collateral under derivative contracts (Note 7) | 3,080 | 1,061 |
| Funds in settlement | 1,843 | 950 |
| Accrued expenses | 1,220 | 863 |
| Grant liabilities | 1,172 | 417 |
| Taxes other than income tax payable | 201 | 217 |
| Other liabilities | 650 | 6 |
| | **27,904** | **16,222** |

*(Thousands of Georgian Lari)*

## 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 2020 and 2019, 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 certain circumstances dividend distributions might be subject to the approval by the regulator.

The Bank did not declare dividends in 2020. In 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. Dividend per share amounted to GEL 0.014 for 2019.

## 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 and loan commitments. These credit cards have fixed limits and generally are extended for a period of up to eight months.

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:

| | *2020* | *2019* |
|---|---|---|
| Undrawn limit on credit cards | 27,343 | 43,883 |
| Other loan commitments | 5,085 | 5,345 |
| | **32,428** | **49,228** |

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.

### Operating environment

The negative effect of COVID 19 pandemic on the Georgian economy has been severe. Based on the preliminary assessments of National Statistics Office of Georgia, Georgian GDP in constant prices shrank by 5.9% in 2020, the level of unemployment reached 18.5%, GEL devaluated against USD by 14% for the period from 1 January 2020 to 31 December 2020 and current account deficit reached 12%. According to the NBG the level of inflation during 2020 remained around 5.2%, which was expected in the result of weakening internal demand and government subsidies on utilities for population on the backdrop of the pandemic. As of the year end, the NBG expects to stay at the present levels of the rate of refinancing of 8% in the observable future, continuing to target the 3% inflation level. The government has been implementing the anti−crisis economic recovery plan, which includes financial support to vulnerable groups of population and entrepreneurs, deferral of property and income tax payments for companies operating in the tourism sector, providing opportunity to borrowers to restructure their loans with commercial banks and other. Georgia's international partners have allocated USD 3 billion to aid the recovery of the country's economy.
In the presence of overall developments in the Georgian banking sector and given economic downturn caused by COVID 19, bank had relatively strong position due to following factors: bank's portfolio is predominantly in GEL, limiting the impact of devaluations; bank's portfolio is highly granular and concentrated in rural regions and agriculture which are likely to be less affected by the crisis; low reliance on deposits reduces risk of runs and good relations with lenders help to maintain liquidity.

Economic downturn, followed by increased credit risk, especially for borrowers operating in vulnerable sectors, has resulted in increase in the Bank's impairment charges as described in notes 7 and 18 to these financial statements. Despite the growth of impairment losses, the Bank maintains strong capital buffers, strong liquidity position and healthy NPL levels due to conservative lending policies and timely restructuring actions. As the COVID−19 outbreak continues and the uncertainty remains about further developments of pandemic duration and the extent of the possible economic recovery in the nearest future, the management of the Bank continues to closely monitor the situation to timely assess and respond to related challenges and risks.

*(Thousands of Georgian Lari)*

## 21. Commitments and contingencies (continued)

### 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 2020 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:

| | *2020* | *2019* |
|---|---|---|
| Fees from credit related activities | 21,711 | 19,383 |
| Fees from client accounts | 2,024 | – |
| Fees from settlement and cash operations | 1,458 | 2,138 |
| Other | 1,417 | 942 |
| | **26,610** | **22,463** |

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:

| | *2020* | *2019* |
|---|---|---|
| Accrued income receivable (presented within other financial assets) | 1,212 | 1,013 |

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:

| | *2020* | *2019* |
|---|---|---|
| Fees from credit related activities | 4,807 | 3,835 |
| Fees from settlement and cash operations | 1,817 | 1,169 |
| Other | 71 | 81 |
| | **6,695** | **5,085** |

*(Thousands of Georgian Lari)*

## 24. Net losses from foreign currencies

Net losses from foreign currencies comprises:

| | *2020* | *2019* |
|---|---|---|
| Dealing | 2,186 | 2,051 |
| Translation differences | (8,001) | (824) |
| Net result from foreign currency derivatives | 3,121 | 830 |
| | **(2,694)** | **2,057** |

Net result from foreign currency derivatives includes GEL 3,060 interest element expenses related to NBG COVID-19 swap program represented by amortization of forward points (difference between the contractual forward and spot rates) (2019: nil) and similar interest element expense on other foreign currency derivatives of GEL 1,008 (2019: GEL 975)

## 25. Other operating income

Other operating income comprises:

| | *2020* | *2019* |
|---|---|---|
| Gain from sale of property plant and equipment and repossessed property | 11 | 68 |
| Reversal of the provision for repossessed property (Note 15) | 230 | – |
| Income from grants | 209 | 476 |
| Other | 13 | 47 |
| | **463** | **591** |

## 26. Other operating expenses

Other operating expenses:

| | *2020* | *2019* |
|---|---|---|
| Expenses for disposal of property, plant and equipment and repossessed property | 11 | – |
| Provisioning of court expenses | 155 | 410 |
| Provisioning of repossessed property (Note 15) | – | 421 |
| Other operating expense | 118 | 120 |
| | **284** | **951** |

## 27. Personnel expenses

Personnel expenses comprise:

| | *2020* | *2019* |
|---|---|---|
| Salary expenses | 54,726 | 50,865 |
| Other personnel expenses | 8,235 | 8,386 |
| | **62,961** | **59,251** |

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 2020 and 2019 was:

| ***Category*** | *2020* | *2019* |
|---|---|---|
| Directors | 4 | 3 |
| Management | 131 | 124 |
| Professional staff | 2,386 | 2,183 |
| **Total** | **2,521** | **2,310** |

In addition to stated above, on average 2,543 employees were employed under temporary service contracts in 2020 (2019: 2,370).

*(Thousands of Georgian Lari)*

## 28. Other general administrative expenses

| | *2020* | *2019* |
|---|---|---|
| Transport and travel expenses | 3,824 | 4,937 |
| Supplies and other consumables | 2,630 | 1,774 |
| Legal and advisory expenses | 2,352 | 2,354 |
| Communication expenses | 2,073 | 1,781 |
| Software expenses | 1,836 | 1,268 |
| Operating taxes | 1,413 | 421 |
| Marketing, advertising and entertainment | 1,342 | 1,698 |
| Rent and utilities | 1,275 | 2,143 |
| Repair and maintenance | 868 | 769 |
| Insurance expenses | 567 | 430 |
| Training | 469 | 399 |
| Security service expenses | 245 | 209 |
| Other | 1,750 | 1,030 |
| | **20,644** | **19,213** |

### Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Bank's auditor for the years ended 31 December 2020 and 2019 comprises:

| | *2020* | *2019* |
|---|---|---|
| Fees for the audit of the Bank's annual financial statements for the year ended 31 December | 189 | 162 |
| Expenditures for other professional services | 4 | 12 |
| | **194** | **174** |

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 334 (2019: GEL 408).

## 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.

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### 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.

*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.

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### Credit risk (continued)

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.

*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.

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### Credit risk (continued)

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 2 years (in 2019 past 4 years historical data was used). 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, Nominal Effective Exchange Rate Indices (Monthly) and GEL/USD exchange rate (in 2019 only real growth rate of GDP was applied)

| *Key drivers* | *2020* | *2021* | *2022* |
|---|---|---|---|
| **GDP growth, %** | | | |
| Upside (25% weight) | (4.5)% | 6.0% | 5.0% |
| Base case (50% weight) | (5.0)% | 5.0% | 4.5% |
| Downside (25% weight) | (6.0)% | 1.0% | 4.0% |
| **Nominal Effective Exchange Rate Indices** | | | |
| Upside (25% weight) | unchanged | appreciation 3% | appreciation 3% |
| Base case (50% weight) | unchanged | unchanged | unchanged |
| Downside (25% weight) | depreciation 3% | depreciation 10% | appreciation 3% |
| **GEL/USD exchange rate** | | | |
| Upside (25% weight) | unchanged | appreciation 5% | appreciation 5% |
| Base case (50% weight) | unchanged | unchanged | unchanged |
| Downside (25% weight) | depreciation 5% | depreciation 10% | appreciation 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.

*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 12m ECL 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. In context of COVID−19 pandemic outbreak, the Bank identified significant increase in credit risk in respect of certain exposures to economic sectors most affected by the pandemic (Note 4).

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### Credit risk (continued)

*Credit quality of loans to customers*

The following table provide information on the credit quality of loans to customers as at 31 December 2020:

| *Loans to customers* | *Total gross carrying value 31 December 2020* | *Stage 1* | *Stage 2* | *Stage 3* | *POCI* |
|---|---|---|---|---|---|
| Not overdue | **956,089** | 946,529 | 9,560 | – | – |
| 1 to 30 days overdue | **3,375** | 3,359 | 16 | – | – |
| 31 to 60 days overdue | **2,829** | – | 2,829 | – | – |
| 61 to 90 days overdue | **2,651** | – | 2,651 | – | – |
| Restructured loans overdue less than 90 days (R1) | **96,816** | – | 92,363 | 4,450 | 3 |
| Loans overdue more than 90 days; defaulted loans | **7,155** | – | – | 7,155 | – |
| Restructured loans overdue more than 90 days (R2) | **683** | – | – | 683 | – |
| **Total loans to customers** | **1,069,598** | **949,888** | **107,419** | **12,288** | **3** |

Not overdue loans to customers presented in stage 2 above represent those modified according to the government moratoria related to COVID−19 pandemic and for which the borrowers' income source is exposed to the vulnerable industries like tourism, restaurant and hotel services. The Bank determined that significant increase in credit risk occurred for such loans and recognized expected credit losses on a life-time basis in their respect.

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** |

### 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.

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

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### 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 liquidity position is assessed and managed by the Bank, based on certain liquidity ratio established by the NBG. Under the requirement Banks must hold the liquid assets that can be used to meet their liquidity needs for upcoming 30−calendar days. As of 31 December 2020 and 2019 the ratio was as follows:

| | ***2020*** | ***2019*** |
|---|---|---|
| LK "Liquidity Coverage Ratio" in FC (hold high−quality liquid assets / Total net cash outflow) | 817% | 860% |
| LK "Liquidity Coverage Ratio" in NC (hold high−quality liquid assets / Total net cash outflow) | 454% | 268% |
| Total LK "Liquidity Coverage Ratio" (hold high−quality liquid assets / Total net cash outflow) | 591% | 462% |

The Banks are obliged to keep LCR at least equal to 100%, 75% and 100% in foreign currency ("FC"), national currency ("NC") and in total, respectively.

Based on the NBG's liquidity support measures on the backdrop of the COVID 19 pandemic, the LCR ratio's local currency component had been removed for all commercial banks operating in Georgia on 1 May 2020 for the duration of one calendar year or other such term as may be deemed appropriate by the regulator based on the assessment of the liquidity needs of the sector.

From 1 September 2019, the NBG additionally introduced the minimum requirement for Net Stable Financing Ratio (NSFR) for commercial banks in Georgia, which should be at least 100%. As of 31 December 2020, the Bank's NSFR was 126% (2019: 118%).

*(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 2020 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 inflow / outflow* |
|---|---|---|---|---|
| Cash and cash equivalents | 165,631 | – | – | **165,631** |
| Amounts due from credit institutions | – | 50,351 | – | **50,351** |
| Net–settled derivative financial assets/ liabilities | – | – | 2,935 | **2,935** |
| Gross–settled derivatives financial assets/liabilities | 63,501 | 1,647 | – | **65,148** |
| Loans to customers | 65,288 | 592,367 | 705,316 | **1,362,971** |
| Investment securities | 252 | 3,520 | 55,551 | **59,323** |
| Other financial assets | 7,759 | 1,789 | 2,374 | **11,922** |
| **Total financial assets** | **302,431** | **649,674** | **766,176** | **1,718,281** |
| Loans from banks and other financial institutions | 10,307 | 440,528 | 680,525 | **1,131,360** |
| Net–settled derivative financial assets/ liabilities | 83 | 891 | 648 | **1,622** |
| Gross–settled derivative financial assets/ liabilities | 64,739 | 1,666 | – | **66,405** |
| Customer accounts | 92,963 | 58,725 | 5,340 | **157,028** |
| Other payables | 18,876 | 3,924 | 3,152 | **25,952** |
| Lease liabilities | 563 | 5,827 | 6,012 | **12,402** |
| Subordinated debt | 462 | 5,147 | 59,692 | **65,301** |
| **Total financial liabilities** | **187,993** | **516,708** | **755,369** | **1,460,070** |
| **Maturity gap** | **114,438** | **132,966** | **10,807** | **258,211** |

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as of 31 December 2019 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 inflows / outflow* |
|---|---|---|---|---|
| Cash and cash equivalents | 76,941 | – | – | **76,941** |
| Amounts due from credit institutions | – | 23,811 | – | **23,811** |
| Net–settled derivative financial assets/ liabilities | – | – | 811 | **811** |
| Gross–settled derivatives financial assets/liabilities | 8,800 | 7,169 | – | **15,969** |
| 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** | **145,368** | **524,222** | **546,368** | **1,215,958** |
| Loans from banks and other financial institutions | 1,337 | 249,046 | 595,434 | **845,817** |
| Net–settled derivative financial assets/ liabilities | 83 | 894 | 1,622 | **2,599** |
| Gross–settled derivative financial assets/ liabilities | 8,406 | 7,956 | – | **16,362** |
| 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** | **78,232** | **307,733** | **654,518** | **1,040,483** |
| **Maturity gap** | **67,136** | **216,489** | **(108,150)** | **175,475** |

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### 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:

| | *2020* | | | *2019* | | |
|---|---|---|---|---|---|---|
| | ***USD*** | ***EUR*** | ***Other FC*** | ***USD*** | ***EUR*** | ***Other FC*** |
| Cash and cash equivalents | 49,176 | 29,786 | 1,746 | 30,017 | 13,253 | 2,439 |
| Amounts due from credit institutions | 41,315 | 9,036 | – | 22,049 | 1,762 | – |
| Loans to customers | 37,217 | 61,177 | – | 39,119 | 43,174 | – |
| Other monetary assets | 834 | 604 | 197 | 915 | 296 | 162 |
| **Total assets** | **128,542** | **100,603** | **1,943** | **92,100** | **58,485** | **2,601** |
| Loans and borrowings | (165,776) | (99,536) | – | (97,329) | (54,799) | – |
| Customer accounts | (36,779) | (6,485) | (271) | (20,845) | (4,778) | (127) |
| Lease liabilities | (4,892) | – | – | (5,974) | – | – |
| Other monetary liabilities | (3,782) | (36) | (6) | (1,895) | (54) | (10) |
| **Total liabilities** | **(211,229)** | **(106,057)** | **(277)** | **(126,043)** | **(59,631)** | **(137)** |
| The effect of derivatives held for risk management | 81,522 | – | (1,641) | 30,111 | – | (1,500) |
| **Net position after derivatives held for risk management purposes** | **(1,165)** | **(5,454)** | **25** | **(3,832)** | **(1,146)** | **964** |

*Exchange rate sensitivity analysis*

A weakening of the GEL, as indicated below, against the foreign currency at 31 December 2020 and 2019 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.

| | ***2020*** | ***2019*** |
|---|---|---|
| 20% appreciation of foreign currency against GEL | (1,319) | (803) |
| 20% depreciation of foreign currency against GEL | 1,319 | 803 |

### 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, while part of the borrowings are at floating rates. Loan 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 sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial liabilities held at 31 December:

| ***Currency*** | ***Sensitivity of net interest income 2020*** | ***Sensitivity of net interest income 2019*** |
|---|---|---|
| GEL | 5,063 / (5,063) | 3,729/ (3,729) |
| USD | 744 / (744) | 201/ (201) |

*(Thousands of Georgian Lari)*

## 29. Risk management (continued)

### Interest rate risk (continued)

The table reflects asset and liabilities that are exposed to interest rate risk as of 31 December 2020:

| | *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 | 165,631 | − | − | **165,631** |
| Amounts due from credit institutions | − | 50,351 | − | **50,351** |
| Loans and advances to customers | 53,827 | 627,616 | 354,983 | **1,036,426** |
| Investment securities | 711 | 693 | 42,108 | **43,512** |
| **Total interest−bearing assets** | **220,169** | **678,660** | **397,091** | **1,295,920** |
| Loans from banks and other financial institutions, including subordinated debt | 168,228 | 605,734 | 218,053 | **992,015** |
| Customer accounts | 94,707 | 54,768 | 4,608 | **154,083** |
| Lease liabilities | 478 | 5,131 | 5,516 | **11,125** |
| **Total interest−bearing liabilities** | **263,413** | **665,633** | **228,177** | **1,157,223** |
| **Interest rate maturity gap** | **(43,244)** | **13,027** | **168,914** | **138,697** |

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** |

*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 2020 and 2019 is as follows:

| | ***2020*** | ***2019*** |
|---|---|---|
| | ***Profit (loss)*** | ***Profit (loss)*** |
| 100 bp parallel fall | 302 | 63 |
| 100 bp parallel rise | (302) | (63) |

### 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.

*(Thousands of Georgian Lari)*

## 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 2020 and 2019, 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.

### Fair value hierarchy

The tables below analyses financial instruments value at 31 December 2020 and 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| | *Fair value measurement using* | | | | |
|---|---|---|---|---|---|
| ***At 31 December 2020*** | ***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 | − | 2,944 | − | **2,944** | **2,944** |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | − | 165,631 | − | **165,631** | **165,631** |
| Amounts due from credit institutions | − | 50,351 | − | **50,351** | **50,351** |
| Loans to customers | − | − | 894,339 | **894,339** | **1,036,426** |
| Investment securities | − | 43,512 | − | **43,512** | **43,512** |
| **Derivative financial liabilities** | | | | | |
| Foreign exchange swaps | − | 422 | − | **422** | **422** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Loans from banks and other financial institutions, including subordinated debt | − | 972,416 | − | **972,416** | **992,015** |
| Customer accounts | − | 154,706 | − | **154,706** | **154,083** |
| Lease liabilities | − | 11,125 | − | **11,125** | **11,125** |

| | *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** |

*(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.

| | *2020* | | *2019* | |
|---|---|---|---|---|
| | ***Transaction value*** | ***Balance*** | ***Transaction value*** | ***Balance*** |
| **Statement of financial position** | | | | |
| **Assets** | | | | |
| Loans to customers | – | – | – | 16 |
| **Liabilities** | | | | |
| Loans from banks and other financial institutions except subordinated | – | 48,909 | – | 46,683 |
| Subordinated debt | – | 20,631 | – | 6,774 |
| Customer accounts | – | 1,242 | – | – |
| **Profit or loss** | | | | |
| Loans from banks and other financial institutions except subordinated– interest expense | 4,241 | – | 4,904 | – |
| Subordinated debt – interest expense | 2,453 | – | 886 | – |
| Customer account–interest expense | 32 | – | – | – |
| Other general and administrative expense | 1,439 | – | 1,269 | – |

Loans from banks and other financial institutions, subordinated debt and their 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 2020 loans received from related parties mature from April 2021 to April 2027, are denominated in EUR and GEL and carry interest rates from 3.7% to 14.5%.

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%.

### Transactions with key management personnel

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

| | *2020* | *2019* |
|---|---|---|
| Members of the Management Board | 2,410 | 1,723 |

*(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 2020 and 2019, 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 StressTest buffers.

In order to reduce harmful impact of COVID‑19 on Georgia's Economy and banking sector, on March 2020 NBG postponed requirements on Countercyclical buffer, also on concentration and CICR buffers‑ as a measures considered under supervisory plan. Taking into consideration abovementioned changes, as at 31 December 2020, the Bank had to maintain CICR buffer of 0.17%, primary due to percentage share of foreign currency denominated loans to customers and Net GRAPE buffer as 2.4% of total risk weighted assets.

As of 31 December 2020, 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 10.57%, 4.95% and 6.61%, respectively (2019: 13.43%, 7.66%, 9.38%).

The Bank was in compliance with these capital adequacy ratios as of 31 December 2020 and 2019. The Bank's capital adequacy ratios on this basis were as follows:

| | ***2020*** | ***2019*** |
|---|---|---|
| Common Equity Tier 1 capital | 143,907 | 131,507 |
| Additional Tier 1 capital | – | – |
| **Tier 1 capital** | **143,907** | **131,507** |
| Tier 2 capital | 45,486 | 31,101 |
| **Total regulatory capital** | **189,393** | **162,608** |
| **Risk weighted assets** | **1,249,026** | **996,558** |
| **Common Equity Tier 1 capital ratio** | **11.5%** | **13.2%** |
| **Total Tier 1 capital adequacy ratio** | **11.5%** | **13.2%** |
| **Regulatory capital ratio** | **15.2%** | **16.3%** |

*(Thousands of Georgian Lari)*

## 33. Events after reporting period

In March 2021, the Bank received a subordinated loan in local currency in the amount of GEL 11,695, due in 2028. The transaction has been approved by the National Bank of Georgia and it further strengthens capital position of the Bank.