JSC Credo Bank

Consolidated financial statements

Year ended 31 December 2022
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
JSC Credo Bank

Opinion

We have audited the consolidated financial statements of JSC Credo Bank and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board 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 Group's 2022 Management Report

Other information consists of the information included in Group's 2022 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2022 Management Report is expected to be available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Ana Kusrashvili

On behalf of EY LLC

Tbilisi, Georgia

5 May 2023

Consolidated statement of financial position

As at 31 December 2022

(Thousands of Georgian Lari)

	Note	*2022*	*2021*
Assets			
Cash and cash equivalents	5	268,774	185,108
Amounts due from credit institutions	6	30,039	19,144
Derivative financial assets	7	1,011	1,893
Loans to customers	8	1,750,714	1,432,151
Investment securities at amortised cost	9	48,869	53,105
Current income tax asset	13	1,653	–
Right-of-use assets	12	16,201	7,782
Property and equipment	10	20,452	15,829
Intangible assets	11	21,081	20,320
Other financial assets	14	17,291	10,124
Other non-financial assets	15	11,546	9,472
Total assets		**2,187,631**	**1,754,928**
Liabilities			
Customer accounts	18	645,305	429,992
Current income tax liabilities	13	-	923
Lease liabilities	12	16,968	8,924
Loans from banks and other financial institutions	16, 17	1,133,002	986,977
Deferred income tax liabilities	13	3,787	1,395
Other liabilities	19	40,223	25,652
Subordinated debt	16, 17	83,844	76,754
Total liabilities		**1,923,129**	**1,530,617**
Equity			
Share capital	20	5,187	5,177
Additional paid-in capital		35,775	35,305
Retained earnings		223,540	183,829
Total equity		**264,502**	**224,311**
Total liabilities and equity		**2,187,631**	**1,754,928**

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

Zaal Pirtskhelava Chief Executive Officer

Erekle Zatiashvili Chief Financial Officer

5 May 2023

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2022

(Thousands of Georgian Lari)

	Note	*2022*	*2021* (reclassified)*
Interest income calculated using effective interest method			
Loans to customers		392,765	324,012
Cash and balances with banks		7,940	5,965
Investment securities		4,772	4,659
		405,477	**334,636**
Interest expense			
Loans from banks and other financial institutions		(133,691)	(114,654)
Customer accounts		(37,551)	(20,208)
Subordinated debt		(11,955)	(8,551)
Lease liabilities		(1,478)	(1,101)
		(184,675)	**(144,514)**
Deposit insurance fee		(792)	(401)
Net interest income		**220,010**	**189,721**
Credit loss expense on loans to customers	8	(49,964)	(57,083)
Net interest income after credit loss expense		**170,046**	**132,638**
Fee and commission income	22	47,905	38,797
Fee and commission expense	23	(16,349)	(10,660)
Net fee and commission income		**31,556**	**28,137**
Net losses from foreign currencies	24	(3,216)	(2,718)
Bargain purchase gain		-	10,051
Other operating income	25	2,479	1,388
Other operating expense	26	(2,047)	(1,952)
Net non-interest income		**28,772**	**34,906**
Personnel expenses	27	(97,150)	(80,268)
Other general administrative expenses	28	(31,979)	(29,412)
Depreciation and amortization	10, 11, 12	(16,255)	(16,272)
Non-interest expenses		**(145,384)**	**(125,952)**
Profit before income tax expense		**53,434**	**41,592**
Income tax expense	13	(8,223)	(4,882)
Profit for the year		**45,211**	**36,710**
Other comprehensive income		–	–
Total comprehensive income for the year		**45,211**	**36,710**

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2022

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
1 January 2021	**4,400**	**–**	**159,238**	**163,638**
Profit for the year	–	–	36,710	**36,710**
Total comprehensive income for the year	**–**	**–**	**36,710**	**36,710**
Share capital increase (Note 20)	777	35,305	–	**36,082**
Dividends declared (Note 20)	–	–	(12,119)	**(12,119)**
31 December 2021	**5,177**	**35,305**	**183,829**	**224,311**
Profit for the year	–	–	45,211	**45,211**
Total comprehensive income for the year	**–**	**–**	**45,211**	**45,211**
Share capital increase (Note 20)	10	470	–	**480**
Dividends declared (Note 20)	–	–	(5,500)	**(5,500)**
31 December 2022	**5,187**	**35,775**	**223,540**	**264,502**

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2022

(Thousands of Georgian Lari)

	Note	2022	2021
Cash flows from operating activities			
Interest received		404,256	340,102
Interest paid		(184,737)	(139,239)
Fees and commissions received		48,948	38,308
Fees and commissions paid		(16,349)	(10,660)
Realised losses from dealing in foreign currencies and related derivatives		(11,173)	(4,515)
Other income received		2,016	908
Other expense paid		(2,047)	(1,952)
Personnel expenses paid		(93,238)	(78,196)
Other operating expenses paid		(24,229)	(35,280)
Cash flows from operating activities before changes in operating assets and liabilities		**123,447**	**109,476**
Net (increase)/decrease in operating assets and liabilities			
Amounts due from credit institutions		(14,440)	35,466
Loans to customers		(396,466)	(257,920)
Other assets		(8,279)	3,072
Net increase/(decrease) in operating liabilities			
Customer accounts		231,110	99,046
Other liabilities		2,767	(82)
Net cash flows used in operating activities before income tax		**(61,861)**	**(10,942)**
Income tax paid		(8,406)	(1,332)
Net cash used in operating activities		**(70,267)**	**(12,274)**
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(15,419)	(13,803)
Proceeds from redemption of investments securities		4,350	17,803
Acquisition of subsidiary, net of cash acquired		–	(17,774)
Proceeds from sale of property and equipment		2	161
Net cash used in investing activities		**(11,067)**	**(13,613)**
Cash flows from financing activities			
Proceeds from issue of share capital	20	-	36,082
Proceeds from borrowings and subordinated loans	17	471,302	447,155
Repayment of borrowings and subordinated loans	17	(282,444)	(413,362)
Repayment of lease liabilities	12	(7,187)	(6,774)
Dividends paid	20	(5,500)	(12,119)
Net cash from financing activities		**176,171**	**50,982**
Net increase in cash and cash equivalents		**94,837**	**25,095**
Effect of exchange rates changes on cash and cash equivalents		(11,171)	(5,618)
Cash and cash equivalents, beginning	5	185,108	165,631
Cash and cash equivalents, ending	5	**268,774**	**185,108**

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Organisation and operations

JSC Credo Bank (the "Bank") a Georgian commercial bank holding a full banking license from the National Bank of Georgia (the "NBG"). On 7 July 2021 the Bank acquired JSC FINCA Bank Georgia, which was legally merged with the Bank by the end of 2021. These consolidated financial statements include the results of operations of the Bank and its subsidiary (together referred to as the Group) prior to the merger date.

The Group 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.

Credo Bank's Mission is to support Georgia's entrepreneurs and their employees to create a better future by offering affordable financial services

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

	Ownership %	
Shareholder	***2022***	***2021***
Access Microfinance Holding AG	51.07%	51.17%
Triodos SICAV II (Triodos Microfinance Fund)	8.40%	8.41%
Legal Owner Triodos Funds B.V.	8.40%	8.41%
responsAbility Participations AG	7.92%	7.94%
responsAbility SICAV (Lux) – (Micro and SME Finance Leaders)	1.59%	1.59%
responsAbility Global Micro and SME Finance Fund	7.46%	7.47%
Société de Promotion et de Participation pour la Coopération Economique (Proparco)	14.93%	14.96%
Management Board	0.24%	0.05%

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

As at 31 December 2022 and 2021 the Group's parent and ultimate controlling party with 51.07% (2021: 51.17%) of the voting rights is Joint Stock Company Access Microfinance Holding AG, Germany.

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

Business environment

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

2. Basis of preparation

General

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

The consolidated 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.

The 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 for exchange rates to foreign currencies and unless otherwise indicated.

(Thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following standards/interpretations relevant to the Group's activities that became effective in 2022 had no impact on the Group's consolidated financial position or results of operations:

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra–group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non–controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non–controlling interests; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Business combinations (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

***Reclassifications**

The following reclassifications have been made to 2021 consolidated statement of profit or loss and other comprehensive income to conform to the 2022 presentation:

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021	**As previously reported**	**Reclassification**	**As reclassified**
Other general administrative expenses	29,813	(401)	29,412
Deposit insurance fee	–	401	401
Net interest income	190,122	401	189,721

Fair value measurement

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group 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 fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group 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 Group 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 Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios (determined at the level that best reflects how the Group manages its financial assets to achieve its business objectives) 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 Group's assessment.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities

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 Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group 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 Group 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 minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Undrawn loan commitments

The Group issues loan commitments. Undrawn loan commitments are commitments under which, over the duration of the commitment, the Group 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 Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, call deposits, amounts due from the NBG, 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 amortised cost and represent interest bearing assets. The Group'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.

Renegotiated loans

The Group 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 Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, 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 Group 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.

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

Renegotiated loans (continued)

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 Group 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 Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 until customer fully repays amount overdue.

Derecognition of financial assets and liabilities

Financial assets

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

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

Write-off

The Group 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 Group 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 Group 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 Group 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 recognised amounts and there is an intention to settle on a net basis, or to realise 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:

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

Offsetting of financial instruments (continued)

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

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

Borrowings 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 Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. 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 amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings and amounts due to customers are derecognised as well as through the amortisation process.

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

Leases

Group as a lessee

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

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

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 recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholder recognised directly in equity, in which case it is recognised 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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (applicable to undistributed profits) that have been enacted or substantively enacted at the reporting date.

Property and equipment

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

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	40
Leasehold improvements (or lease term if earlier)	5
Furniture, fixtures and equipment	2-10
IT and computer equipment	5
Motor vehicles	15

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end (Note 4).

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 (recognised 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 capitalised development costs, are not capitalised and the related expenditure is expensed to profit or loss as incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised over the useful economic lives of 2 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

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

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

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 recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

The Group calculates interest revenue on debt financial assets measured at amortised 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 Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group 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 Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group 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 Group 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 recognised 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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligations are recognised after fulfilling the corresponding criteria.

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

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 the NBG.

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 recognised 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 NBG exchange rate on the date of the transaction are included in Net gains/losses from foreign currencies.

The official NBG exchange rates at 31 December 2022 and 31 December 2021 were GEL 2.702 and GEL 3.0976 GEL to 1 USD, GEL 2.8844 and GEL 3.5040 to 1 EUR, respectively.

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 Group's financial statements are disclosed below. The Group 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 Group has completed the assessment of the impacts of adopting IFRS 17 and, also taking into consideration the scope exclusions for certain banking products, such as credit cards, in IFRS 17.7(h), it has concluded that it does not expect any material impact on its consolidated financial statements from the adoption of the new standard in 2023.

Amendments to IAS 1: Classification of Liabilities as Current or Non–current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non–current. The amendments clarify:

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduced a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non–mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

In addition, the following standards and amendments that are issued but not yet effective are either not expected to have material impact of the Group or where the Group is still assessing the adoption impact:

- *Amendments to IFRS 3: Reference to the Conceptual Framework*
- *Amendments to IAS 12: Deferred tax on leases and decommissioning obligations*
- *Amendments to IAS 16: Proceeds before Intended Use*
- *IFRS 17: Insurance Contracts*
- *Annual Improvements 2018–2020 Cycle (issued in May 2020).*

4. Significant accounting judgments and estimates

The preparation of consolidated 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.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Judgments

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

The Group 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. At inception of the lease, the Group usually does not recognise 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 Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised 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 Group'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 2022, the Group introduced certain changes in its process of estimation of expected credit losses:

- Contamination methodology was calibrated based on product credit risk characteristics. The Group identified loans and products granted under simplified financial analysis (as opposed to the standard, more scrutinised assessment – "standard exposures"), and thus having higher credit risk and yield generation features ("instant exposures"). The Group determined that deterioration of credit quality for instant exposures in most cases does not result in significant increase in credit risk or default of borrower's standard exposures. Therefore, contamination was not applied in respect of standard exposures of the borrowers whose instant exposures were determined to have moved to stage 2 or 3. The corresponding financial effect of the contamination methodology calibration was a reduction of ECL loss by approximately GEL 3.1 million recognised in profit or loss for 2022;
- Curing period for seasonal loans (those having 1-3 annual scheduled payments based on the business' seasonal cash flow pattern) was tailored to from the standard six consecutive scheduled payments to scheduled payments over one annual payment cycle (which would normally include less than six payments for such loans), resulting in immaterial reduction of ECL loss recognised in profit or loss for 2022;
- Remaining COVID-19 ECL overlay adjustments were released in 2022 on the back of post-COVID macroeconomic recovery in Georgia, resulting in GEL 17.4 million reduction in ECL loss recognised in profit or loss for 2022.

Useful lives of property plant and equipment

In 2022, the Group reviewed and revised the useful lives of its property plant and equipment, and intangible assets. The Group determined, based on analysis of historical utilisation periods and market benchmarks, that useful lives for certain asset categories should be increased as follows:

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Asset category	Useful life before 1 January 2022 (in years)	Revised useful from after 1 January 2022 (in years)
Buildings	20	40
Leasehold improvements	2	5
Furniture, fixtures and equipment	2 – 5	2 – 10
Motor vehicles	10	15
Intangibles	2 – 10	2 – 15

The Group extended the estimated useful lives of certain categories of property and equipment and intangible assets from 1 January 2022 and applied those changes prospectively from that date as a change in estimate. The effect of this change in estimate resulted in reduction of depreciation and amortisation expenses for the year ended 31 December 2022 by approximately GEL 3.7 million.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	*2021*
Cash on hand and in ATMs	78,303	92,017
Current accounts with the NBG	21,563	40,653
Current accounts with other credit institutions	113,908	52,438
Term deposits with the NBG with original maturity below 90 days	55,000	–
Cash and cash equivalents	**268,774**	**185,108**

As at 31 December 2022, 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 2022 and 2021. As at 31 December 2022, current accounts and time deposits with credit institutions denominated in USD, EUR and GEL represent 31%, 28% and 41% of total current and time deposits, respectively (31 December 2021: USD 55% and GEL 45%, respectively).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2022	*2021*
Obligatory reserve with the NBG	30,039	19,144
Amounts due from credit institutions	**30,039**	**19,144**

In 2022, the obligatory reserve percentages applied to certain categories of the Group's liabilities were revised upwards resulting in increase in the amount of corresponding obligatory reserve asset. The Group is required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% to 25% (2021: 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 Group earns 0% (USD) and 11.00% (GEL) on these deposits (2021: -0.25% (USD) and 10.50% (GEL)).

(Thousands of Georgian Lari)

7. Derivative financial instruments

The Group 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.

	2022			***2021***		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign currency contracts						
Cross-currency swaps – domestic	171,359	1,011	–	1,549	20	–
Cross−currency swaps – foreign		–	–	15,488	1,873	–
Total derivative assets/liabilities		**1,011**	–		**1,893**	–

Contracts are concluded with Georgian and foreign entities.

As of 31 December 2022, and 2021, the Group has positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates on specified notional amounts.

8. Loans to customers

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

	2022	***2021***
Agro loans	861,415	728,043
Urban loans	572,017	494,301
Tourism loans	70,502	72,614
Other	288,625	192,779
Gross loans to customers	**1,792,559**	**1,487,737**
Less: expected credit losses	(41,845)	(55,586)
Loans to customers	**1,750,714**	**1,432,151**

For the purpose of ECL assessment, the Group'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 Group applied the following segmentation for assessment of ECL of loans to customers based on credit risk profile:

	2022	***2021***
Agro micro loans	576,238	514,707
Agro, tourism and urban SME loans	493,690	326,105
Consumer loans	381,066	323,843
Urban micro loans	316,227	301,129
Tourism micro loans	18,744	17,764
Pawnshop loans	6,594	4,189
Gross loans to customers	**1,792,559**	**1,487,737**
Less: expected credit losses	(41,845)	(55,586)
Loans to customers	**1,750,714**	**1,432,151**

The Group provides loans in GEL, USD and EUR. 89% of the gross loan portfolio is denominated in GEL (2021: 90%).

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Expected credit losses on loans to customers at amortised cost

An aggregate analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2022 is as follows:

Expected credit losses on loans to customers at amortised cost

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**1,311,352**	**151,871**	**23,332**	**1,182**	**1,487,737**
New assets originated or purchased	1,686,430	–	–	–	**1,686,430**
Assets repaid	(1,537,731)	(36,117)	(3,748)	(576)	**(1,578,172)**
Transfers to Stage 1	123,788	(115,674)	(8,114)	–	**–**
Transfers to Stage 2	(121,694)	145,810	(24,116)	–	**–**
Transfers to Stage 3	(1,876)	(84,537)	86,413	–	**–**
Amounts written off	–	–	(80,150)	(140)	**(80,290)**
Foreign exchange and other movements	236,509	16,911	23,297	137	**276,854**
At 31 December 2022	**1,696,778**	**78,264**	**16,914**	**603**	**1,792,559**

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**10,806**	**28,397**	**16,226**	**157**	**55,586**
New assets originated or purchased	14,153	–	–	–	**14,153**
Assets repaid	(19,239)	(5,087)	(2,629)	(61)	**(27,016)**
Transfers to Stage 1[1]	34,794	(28,044)	(6,750)	–	**–**
Transfers to Stage 2	(16,094)	33,219	(17,125)	–	**–**
Transfers to Stage 3	(1,969)	(29,007)	30,976	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(8,793)	10,881	54,821	74	**56,983**
Amounts written off	–	–	(80,150)	(140)	**(80,290)**
Foreign exchange and other movements	2,617	3,393	16,411	8	**22,429**
At 31 December 2022	**16,275**	**13,752**	**11,780**	**38**	**41,845**

Segment analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2022 is as follows:

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**471,861**	**35,391**	**7,062**	**393**	**514,707**
New assets originated or purchased	526,514	–	–	–	**526,514**
Assets repaid	(556,279)	(10,220)	(1,549)	(220)	**(568,268)**
Transfers to Stage 1	28,710	(25,575)	(3,135)	–	**–**
Transfers to Stage 2	(43,601)	52,589	(8,988)	–	**–**
Transfers to Stage 3	(639)	(30,163)	30,802	–	**–**
Amounts written off	–	–	(24,459)	(48)	**(24,507)**
Foreign exchange and other movements	112,822	7,918	7,020	32	**127,792**
At 31 December 2022	**539,388**	**29,940**	**6,753**	**157**	**576,238**

1 ECL effects from transfers between stages are presented in the amounts corresponding to ECL in the incoming stage, with corresponding ECL effect from transfer affecting profit or loss presented in "Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs"

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**3,479**	**7,979**	**5,165**	**67**	**16,690**
New assets originated or purchased	3,992	–	–	–	**3,992**
Assets repaid	(5,327)	(1,818)	(1,069)	(35)	**(8,249)**
Transfers to Stage 1	10,109	(7,631)	(2,478)	–	**–**
Transfers to Stage 2	(5,978)	13,063	(7,085)	–	**–**
Transfers to Stage 3	(590)	(10,175)	10,765	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(1,490)	2,577	18,979	35	**20,101**
Amounts written off	–	–	(24,459)	(48)	**(24,507)**
Foreign exchange and other movements	1,110	1,436	4,788	5	**7,339**
At 31 December 2022	**5,305**	**5,431**	**4,606**	**24**	**15,366**

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**271,757**	**50,398**	**3,665**	**285**	**326,105**
New assets originated or purchased	355,335	–	–	–	**355,335**
Assets repaid	(188,505)	(10,359)	(138)	(95)	**(199,097)**
Transfers to Stage 1	37,336	(36,711)	(625)	–	**–**
Transfers to Stage 2	(15,503)	20,038	(4,535)	–	**–**
Transfers to Stage 3	(241)	(4,463)	4,704	–	**–**
Amounts written off	–	–	(3,003)	(53)	**(3,056)**
Foreign exchange and other movements	16,421	(2,588)	542	28	**14,403**
At 31 December 2022	**476,600**	**16,315**	**610**	**165**	**493,690**

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**497**	**2,677**	**1,347**	**33**	**4,554**
New assets originated or purchased	842	–	–	–	**842**
Assets repaid	(605)	(389)	(43)	(8)	**(1,045)**
Transfers to Stage 1	3,040	(2,706)	(334)	–	**–**
Transfers to Stage 2	(372)	1,830	(1,458)	–	**–**
Transfers to Stage 3	(241)	(602)	843	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(1,606)	1,521	2,674	30	**2,619**
Amounts written off	–	–	(3,003)	(53)	**(3,056)**
Foreign exchange and other movements	55	(319)	211	–	**(53)**
At 31 December 2022	**1,610**	**2,012**	**237**	**2**	**3,861**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Expected credit losses on 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 2022	**253,059**	**40,955**	**6,716**	**399**	**301,129**
New assets originated or purchased	282,487	–	–	–	**282,487**
Assets repaid	(307,928)	(7,805)	(929)	(216)	**(316,878)**
Transfers to Stage 1	35,677	(33,671)	(2,006)	–	**–**
Transfers to Stage 2	(31,239)	37,728	(6,489)	–	**–**
Transfers to Stage 3	(286)	(25,203)	25,489	–	**–**
Amounts written off	–	–	(26,141)	(16)	**(26,157)**
Foreign exchange and other movements	61,894	5,822	7,862	68	**75,646**
At 31 December 2022	**293,664**	**17,826**	**4,502**	**235**	**316,227**

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**2,386**	**10,969**	**4,758**	**33**	**18,146**
New assets originated or purchased	2,516	–	–	–	**2,516**
Assets repaid	(4,918)	(1,379)	(609)	(16)	**(6,922)**
Transfers to Stage 1	12,279	(10,715)	(1,564)	–	**–**
Transfers to Stage 2	(4,518)	9,399	(4,881)	–	**–**
Transfers to Stage 3	(265)	(8,052)	8,317	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(4,395)	2,202	17,716	7	**15,530**
Amounts written off	–	–	(26,141)	(16)	**(26,157)**
Foreign exchange and other movements	824	1,176	5,625	3	**7,628**
At 31 December 2022	**3,909**	**3,600**	**3,221**	**11**	**10,741**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**299,842**	**18,412**	**5,521**	**68**	**323,843**
New assets originated or purchased	503,933	–	–	–	**503,933**
Assets repaid	(468,993)	(4,634)	(1,124)	(30)	**(474,781)**
Transfers to Stage 1	18,238	(15,947)	(2,291)	–	**–**
Transfers to Stage 2	(29,544)	33,406	(3,862)	–	**–**
Transfers to Stage 3	(704)	(24,031)	24,735	–	**–**
Amounts written off	–	–	(25,791)	(23)	**(25,814)**
Foreign exchange and other movements	41,291	4,916	7,676	2	**53,885**
At 31 December 2022	**364,063**	**12,122**	**4,864**	**17**	**381,066**

(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 2022	**4,330**	**6,063**	**4,726**	**22**	**15,141**
New assets originated or purchased	6,617	–	–	–	**6,617**
Assets repaid	(8,141)	(1,280)	(905)	(2)	**(10,328)**
Transfers to Stage 1	8,734	(6,397)	(2,337)	–	**–**
Transfers to Stage 2	(5,121)	8,661	(3,540)	–	**–**
Transfers to Stage 3	(867)	(10,054)	10,921	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(882)	4,508	14,864	4	**18,494**
Amounts written off	–	–	(25,791)	(23)	**(25,814)**
Foreign exchange and other movements	597	1,024	5,628	–	**7,249**
At 31 December 2022	**5,267**	**2,525**	**3,566**	**1**	**11,359**

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**3,815**	**371**	**3**	**–**	**4,189**
New assets originated or purchased	4,793	–	–	–	**4,793**
Assets repaid	(3,642)	(67)	(1)	–	**(3,710)**
Transfers to Stage 1	410	(410)	–	–	**–**
Transfers to Stage 2	(165)	179	(14)	–	**–**
Transfers to Stage 3	(1)	(35)	36	–	**–**
Amounts written off	–	–	(25)	–	**(25)**
Foreign exchange and other movements	1,334	11	2	–	**1,347**
At 31 December 2022	**6,544**	**49**	**1**	**–**	**6,594**

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**23**	**62**	**1**	**–**	**86**
New assets originated or purchased	30	–	–	–	**30**
Assets repaid	(68)	(6)	(1)	–	**(75)**
Transfers to Stage 1	69	(69)	–	–	**–**
Transfers to Stage 2	(9)	13	(4)	–	**–**
Transfers to Stage 3	(1)	(3)	4	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(39)	5	25	–	**(9)**
Amounts written off	–	–	(25)	–	**(25)**
Foreign exchange and other movements	1	1		–	**2**
At 31 December 2022	**6**	**3**	**–**	**–**	**9**

(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 2022	**11,018**	**6,344**	**365**	**37**	**17,764**
New assets originated or purchased	13,368	–	–	–	**13,368**
Assets repaid	(12,384)	(3,032)	(7)	(15)	**(15,438)**
Transfers to Stage 1	3,417	(3,360)	(57)	–	**–**
Transfers to Stage 2	(1,642)	1,870	(228)	–	**–**
Transfers to Stage 3	(5)	(642)	647	–	**–**
Amounts written off	–	–	(731)	–	**(731)**
Foreign exchange and other movements	2,747	832	195	7	**3,781**
At 31 December 2022	**16,519**	**2,012**	**184**	**29**	**18,744**

Tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**91**	**647**	**229**	**2**	**969**
New assets originated or purchased	156	–	–	–	**156**
Assets repaid	(180)	(215)	(2)	–	**(397)**
Transfers to Stage 1	563	(526)	(37)	–	**–**
Transfers to Stage 2	(96)	253	(157)	–	**–**
Transfers to Stage 3	(5)	(121)	126	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(381)	68	563	(2)	**248**
Amounts written off	–	–	(731)	–	**(731)**
Foreign exchange and other movements	30	75	159	–	**264**
At 31 December 2022	**178**	**181**	**150**	**–**	**509**

An aggregate analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2021 is as follows:

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**949,888**	**107,419**	**12,288**	**3**	**1,069,598**
Additions from business combination (Note 5)	214,032	–	–	5,144	**219,176**
New assets originated or purchased	1,514,531	–	–	–	**1,514,531**
Assets repaid	(1,217,236)	(52,174)	(1,258)	(174)	**(1,270,842)**
Transfers to Stage 1	53,439	(52,888)	(551)	–	**–**
Transfers to Stage 2	(184,620)	190,627	(6,007)	–	**–**
Transfers to Stage 3	(7,500)	(35,367)	42,867	–	**–**
Amounts written off	–	–	(46,123)	(4,304)	**(50,427)**
Foreign exchange and other movements	(11,182)	(5,746)	22,116	513	**5,701**
At 31 December 2021	**1,311,352**	**151,871**	**23,332**	**1,182**	**1,487,737**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**10,116**	**13,604**	**9,452**	**–**	**33,172**
ECL recognition at business combination	5,425	–	–	–	**5,425**
New assets originated or purchased	20,428	–	–	–	**20,428**
Assets repaid	(19,316)	(13,836)	(2,320)	–	**(35,472)**
Transfers to Stage 1[2]	692	(673)	(19)	–	**–**
Transfers to Stage 2	(25,670)	25,873	(203)	–	**–**
Transfers to Stage 3	(917)	(25,957)	26,874	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	19,631	29,290	10,869	5,079	**64,869**
Amounts written off	–	–	(46,123)	(4,304)	**(50,427)**
Foreign exchange and other movements	417	96	17,696	(618)	**17,591**
At 31 December 2021	**10,806**	**28,397**	**16,226**	**157**	**55,586**

Segment analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2021 is as follows:

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**357,762**	**20,435**	**3,033**	**3**	**381,233**
Additions from business combination	79,517	–	–	1,429	**80,946**
New assets originated or purchased	493,469	–	–	–	**493,469**
Assets repaid	(418,504)	(12,047)	(252)	(45)	**(430,848)**
Transfers to Stage 1	12,027	(11,850)	(177)	–	**–**
Transfers to Stage 2	(48,918)	50,085	(1,167)	–	**–**
Transfers to Stage 3	(1,674)	(11,091)	12,765	–	**–**
Amounts written off	–	–	(13,684)	(1,163)	**(14,847)**
Foreign exchange and other movements	(1,818)	(141)	6,544	169	**4,754**
At 31 December 2021	**471,861**	**35,391**	**7,062**	**393**	**514,707**

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**3,138**	**3,012**	**2,179**	**–**	**8,329**
Additions from business combination	2,017	–	–	–	**2,017**
New assets originated or purchased	5,374	–	–	–	**5,374**
Assets repaid	(5,205)	(3,483)	(629)	–	**(9,317)**
Transfers to Stage 1	173	(167)	(6)	–	**–**
Transfers to Stage 2	(7,735)	7,799	(64)	–	**–**
Transfers to Stage 3	(120)	(7,898)	8,018	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	5,848	8,455	3,424	1,394	**19,121**
Amounts written off	–	–	(13,684)	(1,163)	**(14,847)**
Foreign exchange and other movements	(11)	261	5,927	(164)	**6,013**
At 31 December 2021	**3,479**	**7,979**	**5,165**	**67**	**16,690**

2 ECL effects from transfers between stages are presented in the amounts corresponding to ECL in the incoming stage, with corresponding ECL effect from transfer affecting profit or loss presented in "Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs"

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**151,605**	**51,672**	**532**	**–**	**203,809**
Additions from business combination	50,919	–	–	1,673	**52,592**
New assets originated or purchased	230,704	–	–	–	**230,704**
Assets repaid	(128,699)	(17,759)	(67)	(64)	**(146,589)**
Transfers to Stage 1	14,043	(13,989)	(54)		**–**
Transfers to Stage 2	(36,015)	36,144	(129)	–	**–**
Transfers to Stage 3	(3,294)	(1,230)	4,524	–	**–**
Amounts written off	–	–	(994)	(1,447)	**(2,441)**
Foreign exchange and other movements	(7,506)	(4,440)	(147)	123	**(11,970)**
At 31 December 2021	**271,757**	**50,398**	**3,665**	**285**	**326,105**

Agro, tourism and urban SME loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**768**	**5,709**	**293**	**–**	**6,770**
Additions from business combination	1,071	–	–	–	**1,071**
New assets originated or purchased	2,580	–	–	–	**2,580**
Assets repaid	(849)	(3,970)	(109)	–	**(4,928)**
Transfers to Stage 1	71	(70)	(1)	–	**–**
Transfers to Stage 2	(3,759)	3,775	(16)	–	**–**
Transfers to Stage 3	(166)	(692)	858	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	803	(1,545)	1,552	1,695	**2,505**
Amounts written off	–	–	(994)	(1,447)	**(2,441)**
Foreign exchange and other movements	(22)	(530)	(236)	(215)	**(1,003)**
At 31 December 2021	**497**	**2,677**	**1,347**	**33**	**4,554**

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**199,255**	**18,979**	**2,249**	**–**	**220,483**
Additions from business combination	59,663	–	–	1,124	**60,787**
New assets originated or purchased	285,216	–	–	–	**285,216**
Assets repaid	(243,635)	(12,262)	(355)	(36)	**(256,288)**
Transfers to Stage 1	16,061	(15,917)	(144)	–	**–**
Transfers to Stage 2	(60,608)	62,386	(1,778)	–	**–**
Transfers to Stage 3	(1,604)	(11,538)	13,142	–	**–**
Amounts written off	–	–	(12,791)	(880)	**(13,671)**
Foreign exchange and other movements	(1,289)	(693)	6,393	191	**4,602**
At 31 December 2021	**253,059**	**40,955**	**6,716**	**399**	**301,129**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**2,004**	**2,511**	**1,550**	**–**	**6,065**
Additions from business combination	1,969	–	–	–	**1,969**
New assets originated or purchased	3,958	–	–	–	**3,958**
Assets repaid	(3,708)	(3,544)	(679)	–	**(7,931)**
Transfers to Stage 1	220	(215)	(5)	–	**–**
Transfers to Stage 2	(6,984)	7,056	(72)	–	**–**
Transfers to Stage 3	(385)	(7,855)	8,240	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	5,117	12,799	3,407	1,086	**22,409**
Amounts written off	–	–	(12,791)	(880)	**(13,671)**
Foreign exchange and other movements	195	217	5,108	(173)	**5,347**
At 31 December 2021	**2,386**	**10,969**	**4,758**	**33**	**18,146**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**230,718**	**6,326**	**6,347**	**–**	**243,391**
Additions from business combination	22,956	–	–	914	**23,870**
New assets originated or purchased	488,932	–	–	–	**488,932**
Assets repaid	(415,804)	(5,408)	(575)	(20)	**(421,807)**
Transfers to Stage 1	5,878	(5,703)	(175)	–	**–**
Transfers to Stage 2	(31,586)	34,446	(2,860)	–	**–**
Transfers to Stage 3	(843)	(11,062)	11,905	–	**–**
Amounts written off	–	–	(18,653)	(814)	**(19,467)**
Foreign exchange and other movements	(409)	(187)	9,532	(12)	**8,924**
At 31 December 2021	**299,842**	**18,412**	**5,521**	**68**	**323,843**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**4,135**	**1,563**	**5,367**	**–**	**11,065**
Additions from business combination	335	–	–	–	**335**
New assets originated or purchased	8,281	–	–	–	**8,281**
Assets repaid	(9,464)	(2,027)	(886)	–	**(12,377)**
Transfers to Stage 1	180	(173)	(7)	–	**–**
Transfers to Stage 2	(6,689)	6,736	(47)	–	**–**
Transfers to Stage 3	(242)	(9,301)	9,543	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	7,534	9,118	2,272	907	**19,831**
Amounts written off	–	–	(18,653)	(814)	**(19,467)**
Foreign exchange and other movements	260	147	7,137	(71)	**7,473**
At 31 December 2021	**4,330**	**6,063**	**4,726**	**22**	**15,141**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**4,158**	**317**	**21**	**–**	**4,496**
New assets originated or purchased	2,453	–	–	–	**2,453**
Assets repaid	(2,512)	(170)	–	–	**(2,682)**
Transfers to Stage 1	302	(302)	–	–	**–**
Transfers to Stage 2	(551)	551	–	–	**–**
Transfers to Stage 3	–	(17)	17	–	**–**
Amounts written off	–	–	(1)	–	**(1)**
Foreign exchange and other movements	(35)	(8)	(34)	–	**(77)**
At 31 December 2021	**3,815**	**371**	**3**	**–**	**4,189**

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2021	**15**	**54**	**11**	**–**	**80**
New assets originated or purchased	23	–	–	–	**23**
Assets repaid	(12)	(76)	–	–	**(88)**
Transfers to Stage 1	3	(3)	–	–	**–**
Transfers to Stage 2	(52)	52	–	–	**–**
Transfers to Stage 3	–	(9)	9	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	44	46	13	–	**103**
Amounts written off	–	–	(1)	–	**(1)**
Foreign exchange and other movements	2	(2)	(31)	–	**(31)**
At 31 December 2021	**23**	**62**	**1**	**–**	**86**

Tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**6,390**	**9,690**	**106**	**–**	**16,186**
Additions from business combination	977	–	–	4	**981**
New assets originated or purchased	13,757	–	–	–	**13,757**
Assets repaid	(8,082)	(4,528)	(9)	(9)	**(12,628)**
Transfers to Stage 1	5,128	(5,127)	(1)	–	**–**
Transfers to Stage 2	(6,942)	7,015	(73)	–	**–**
Transfers to Stage 3	(85)	(429)	514	–	**–**
Amounts written off	–	–	–	–	**–**
Foreign exchange and other movements	(125)	(277)	(172)	42	**(532)**
At 31 December 2021	**11,018**	**6,344**	**365**	**37**	**17,764**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Tourism micro loans	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2021	**56**	**755**	**52**	**–**	**863**
Additions from business combination	**33**	–	–	–	**33**
New assets originated or purchased	212	–	–	–	**212**
Assets repaid	(78)	(736)	(17)	–	**(831)**
Transfers to Stage 1	45	(45)	–	–	**–**
Transfers to Stage 2	(451)	455	(4)	–	**–**
Transfers to Stage 3	(4)	(202)	206	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	285	417	201	(3)	**900**
Amounts written off	–	–	–	–	**–**
Foreign exchange and other movements	(7)	3	(209)	5	**(208)**
At 31 December 2021	**91**	**647**	**229**	**2**	**969**

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 2022 and 2021 is as follows:

2022	***ECL charge, gross of recovery***	***Recovery***	***Credit loss expense in profit or loss***
Agro micro loans	23,183	(5,064)	18,119
Consumer loans	22,032	(5,334)	16,698
Urban micro loans	18,752	(5,405)	13,347
Agro, tourism and urban SME Loans	2,363	(631)	1,732
Tourism micro loans	271	(151)	120
Pawnshop loans	(52)	(5)	(57)
	66,549	**(16,590)**	**49,959**

2021	***ECL charge,gross of recovery***	***Recovery***	***Credit loss expense in profit or loss***
Urban Micro Loans	23,783	(2,501)	21,282
Agro Micro Loans	21,191	(3,347)	17,844
Consumer Loans	23,208	(2,107)	21,101
Agro, Tourism and Urban SME Loans	(846)	(2,300)	(3,146)
Tourism Micro Loans	73	(41)	32
Pawnshop loans	7	(37)	(30)
	67,416	**(10,333)**	**57,083**

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

During 2022 and 2021, the Group has modified the terms and conditions of certain loans, including (for 2021) introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID−19 pandemic. The Group considered these modifications to be non−substantial. The Group recognised net modification loss in GEL 217 and GEL 642 in profit or loss for the years 2022 and 2021 respectively (presented within interest revenue).

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

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Modified and restructured loans (continued)

	2022	*2021*
Loans modified during the period		
Restructured loans as at 31 December	68,583	130,068
Loans modified since initial recognition		
Gross carrying amount at 31 December of loans for which loss allowance has changed to 12−month measurement (Stage 1) during the period	33,160	18,277

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 15 thousand are collateralised. The main types of collateral are land and other real estate, vehicles.

As at 31 December 2022 and 2021, collateral does not have any material impact on ECL on Stage 3 loans (collectively assessed).

Note 16 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:

	2022	*2021*
Agriculture	711,850	571,570
Service	370,449	285,944
Trade	334,778	288,851
Consumer	92,992	128,542
Manufacturing	73,167	54,267
Transportation	4,805	3,826
Other	204,518	154,737
	1,792,559	**1,487,737**
Less: expected credit losses	(41,845)	(55,586)
Net loans to customers	**1,750,714**	**1,432,151**

9. Investment securities at amortised cost

	2022	*2021*
Debt securities at amortised cost		
Corporate bonds of foreign issuers (AAA rated)	26,142	26,128
Treasury bills of the Ministry of Finance (BB rated)	22,727	26,977
Debt securities at amortised cost	**48,869**	**53,105**

All balances of investment securities are held at amortised cost and are allocated to Stage 1. ECL was not material as at 31 December 2022 and 2021.

(Thousands of Georgian Lari)

10. Property and equipment

The movements in property and equipment were as follows in 2022:

	Land and buildings (including leasehold improvement)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
31 December 2021	**4,018**	**16,223**	**3,678**	**14,024**	**37,943**
Additions	1,506	2,652	654	3,487	**8,299**
Disposals	–	(680)	(235)	(170)	**(1,085)**
31 December 2022	**5,524**	**18,195**	**4,097**	**17,341**	**45,157**
Accumulated depreciation					
31 December 2021	**(1,869)**	**(9,563)**	**(2,510)**	**(8,172)**	**(22,114)**
Depreciation charge	(441)	(1,636)	(170)	(1,275)	**(3,522)**
Disposals	–	648	153	130	**931**
31 December 2022	**(2,310)**	**(10,551)**	**(2,527)**	**(9,317)**	**(24,705)**
Net book value as at 31 December 2021	**2,149**	**6,660**	**1,168**	**5,852**	**15,829**
Net book value as at 31 December 2022	**3,214**	**7,644**	**1,570**	**8,024**	**20,452**

The movements in property and equipment were as follows in 2021:

	Land and buildings (including leasehold improvement)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
31 December 2020	**1,424**	**12,431**	**3,625**	**10,394**	**27,874**
Additions	1,493	3,630	94	2,614	**7,831**
Additions from business combination	1,101	652	–	1,170	**2,923**
Disposals	–	(490)	(41)	(154)	**(685)**
31 December 2021	**4,018**	**16,223**	**3,678**	**14,024**	**37,943**
Accumulated depreciation					
31 December 2020	**(919)**	**(7,673)**	**(2,327)**	**(6,317)**	**(17,236)**
Depreciation charge	(950)	(2,345)	(224)	(1,992)	**(5,511)**
Disposals	–	455	41	137	**633**
31 December 2021	**(1,869)**	**(9,563)**	**(2,510)**	**(8,172)**	**(22,114)**
Net book value as at 31 December 2020	**505**	**4,758**	**1,298**	**4,077**	**10,638**
Net book value as at 31 December 2021	**2,149**	**6,660**	**1,168**	**5,852**	**15,829**

The gross amount of fully depreciated property and equipment that is still in use in 2022 was GEL 16,952 (2021: GEL 17,217).

(Thousands of Georgian Lari)

11. Intangible assets

The movements in intangible assets were as follows in 2022:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Customer relations*	*Total*
Cost					
31 December 2021	**9,670**	**7,560**	**4,209**	**10,094**	**31,533**
Additions	1,191	3,719	2,364	–	**7,274**
31 December 2022	**10,861**	**11,279**	**6,573**	**10,094**	**38,807**
Accumulated amortization					
31 December 2021	**(3,808)**	**(3,101)**	**(1,003)**	**(3,301)**	**(11,213)**
Amortization charge	(1,728)	(985)	(867)	(2,933)	**(6,513)**
31 December 2022	**(5,536)**	**(4,086)**	**(1,870)**	**(6,234)**	**(17,726)**
Net book value as at 31 December 2021	**5,862**	**4,459**	**3,206**	**6,793**	**20,320**
Net book value as at 31 December 2022	**5,325**	**7,193**	**4,703**	**3,860**	**21,081**

The movements in intangible assets were as follows in 2021:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Customer relations*	*Total*
Cost					
31 December 2020	**6,036**	**4,287**	**3,462**	**3,238**	**17,023**
Additions	3,208	1,790	1,025	–	**6,023**
Additions from business combination	426	–	1,205	6,856	**8,487**
Transfers within intangible assets	–	1,483	(1,483)	–	**–**
31 December 2021	**9,670**	**7,560**	**4,209**	**10,094**	**31,533**
Accumulated amortization					
31 December 2020	**(2,684)**	**(1,400)**	**(1,052)**	**(1,510)**	**(6,646)**
Amortization charge	(1,124)	(973)	(679)	(1,791)	**(4,567)**
Transfers within intangible assets	–	(728)	728	–	**–**
31 December 2021	**(3,808)**	**(3,101)**	**(1,003)**	**(3,301)**	**(11,213)**
Net book value as at 31 December 2020	**3,352**	**2,887**	**2,410**	**1,728**	**10,377**
Net book value as at 31 December 2021	**5,862**	**4,459**	**3,206**	**6,793**	**20,320**

12. Leases

The movements in right−of−use assets in 2022 were as follows:

	Right−of−use assets (offices and other real estate)
31 December 2021	**19,987**
Additions	14,639
Disposals and write−offs	(9,542)
31 December 2022	**25,084**
Accumulated depreciation	
31 December 2021	**(12,205)**
Depreciation charge	(6,220)
Disposals and write−offs	9,542
31 December 2022	**(8,883)**
Net book value	
31 December 2021	**7,782**
31 December 2022	**16,201**

(Thousands of Georgian Lari)

12. Leases (continued)

The movement in lease liabilities in 2022 was as follows:

	Lease liabilities
As at 31 December 2021	**8,924**
Additions	14,639
Interest expense	1,478
Payments	(8,665)
Terminations	(42)
Foreign exchange effect	634
As at 31 December 2022	**16,968**

The movements in right−of−use assets in 2021 were as follows:

	Right−of−use assets (offices and other real estate)
31 December 2020	**18,161**
Additions	4,240
Additions from business combination	4,253
Disposals and write−offs	(6,667)
31 December 2021	**19,987**
Accumulated depreciation	
31 December 2020	**(8,743)**
Depreciation charge	(6,193)
Disposals and write−offs	2,731
31 December 2021	**(12,205)**
Net book value	
31 December 2020	**9,418**
31 December 2021	**7,782**

The movement in lease liabilities in 2021 was as follows:

	Lease liabilities
As at 31 December 2020	**11,125**
Additions	4,240
Additions from business combination	4,760
Interest expense	1,101
Payments	(7,875)
Terminations	(4,633)
Foreign exchange effect	206
As at 31 December 2021	**8,924**

The Group recognied rent expense from short−term leases of GEL 527 in 2022 (2021: 601 GEL). Total cash outflows for leases amounted to GEL 9,223 (2021: 8,291). The Group had non−cash additions to right−of−use assets and lease liabilities of GEL 14,639 in 2022 (2021: 4,240). Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognised amounted to GEL 24,977 as at 31 December 2022 (2021: 19,342).

13. Taxation

The corporate income tax expense comprises:

	2022	*2021*
Current year tax charge	5,831	4,651
Deferred taxation charge due to origination and reversal of temporary differences	2,392	231
Total income tax expense	**8,223**	**4,882**

(Thousands of Georgian Lari)

13. Taxation (continued)

The income tax rate applicable to the Group'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:

	2022	*2021*
Profit before tax	**53,434**	**41,592**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**8,015**	**6,239**
Non−deductible expenses	37	103
Tax exempt income	(559)	(1,763)
Change in tax base	(513)	−
Effects from changes in tax legislation	1,244	303
Income tax expense	**8,223**	**4,882**

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implied a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023. On 16 December 2022, an amendment to the corporate tax code was passed into law abolishing the expected transition to taxation on distributed earnings from 1 January 2023. According to the amendment, effective from 1 January 2023, existing taxation rules for financial institutions, including banks, will be maintained. At the same time, the existing corporate tax rate for banks will be increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable interest income and deductible ECLs on loans to customers will be defined as per IFRS, instead of NBG regulations.

Transition differences in ECLs will be taxed at 15%. The amended law lacks clarification in treatment of transition differences in interest income. Management considers it reasonable that an approach similar to ECL on transition is applicable on interest income and calculates deferred tax respectively. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, deferred tax assets and liabilities balances have been remeasured, in line with the updated legislation. The change resulted in a material one−off deferred tax charge as previously the Bank recognised deferred taxes only to the extent they were expected to realise before 1 January 2023.

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 2022 and 2021.

Deferred tax assets and liabilities as of 31 December 2022 and 2021 and their movements for the respective years comprise:

	31 December 2020	*Business combination*	*Recognised in profit or loss*	*31 December 2021*	*Recognised in profit or loss*	*31 December 2022*
Tax effect of deductible temporary differences						
Loan portfolio, except for expected credit losses	1,660	1,605	(2,030)	1,235	2,524	3,759
Salaries payable and other liabilities	(141)	−	81	(60)	645	585
Other assets	−	(67)	67	−	−	−
Deferred tax assets	**1,519**	**1,538**	**(1,882)**	**1,175**	**3,169**	**4,344**
Tax effect of taxable temporary differences						
Expected credit losses	(878)	(678)	1,053	(503)	(2,147)	(2,650)
Property and equipment and intangible assets	(1,270)	(56)	−	(1,326)	(2,783)	(4,109)
Loans and borrowings	(508)	(831)	598	(741)	(631)	(1,372)
Deferred tax liabilities	**(2,656)**	**(1,565)**	**1,651**	**(2,570)**	**(5,561)**	**(8,131)**
Net deferred tax liability	**(1,137)**	**(27)**	**(231)**	**(1,395)**	**(2,392)**	**(3,787)**

(Thousands of Georgian Lari)

14. Other financial assets

Other financial assets comprise:

	2022	*2021*
Other financial assets		
International money settlements	6,975	2,504
Local funds in settlement	6,950	5,406
Prepaid court expenses	5,102	2,616
Accrued commission income	1,271	1,274
Receivables from employees	310	144
Less: allowance for impairment of other financial assets	(3,317)	(1,820)
Total financial assets	**17,291**	**10,124**

The Group recognised GEL 1,752 charge on allowance for impairment of other financial assets (2021: GEL 431), that were presented in other operating expenses.

15. Other non−financial assets

Other non−financial assets comprise:

	2022	*2021*
Other non−financial assets		
Repossessed property	5,714	3,741
Prepayments and advances	3,830	3,951
Inventory	1,451	1,069
Prepaid taxes other than income tax	551	711
Total non−financial assets	**11,546**	**9,472**

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

In 2022, the Group repossessed properties of GEL 1,788 (mostly represented by real estate) in non−cash settlement of loans issued (2021: GEL 1,097). As a result of increased real estate market prices as at 31 December the Group has recognised reversal of impairment for repossessed property of GEL 385 (2021: impairment of 191).

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

Loans from banks and other financial institutions (measured at amortised cost) consisted of the following:

	2022	*2021*
Loans with floating interest rate	623,659	637,901
Loans with fixed interest rate	509,343	349,076
Loans from banks and other financial institutions	**1,133,002**	**986,977**

As at 31 December 2022 loans from banks and other financial institutions mature from January 2023 to December 2030 (2021: from January 2022 to December 2030), and are denominated in GEL, USD and EUR.

As at 31 December 2022 and 2021, the Group was in compliance with all externally imposed financial covenants under loans from banks and other financial institutions and subordinated loans.

(Thousands of Georgian Lari)

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

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

	Currency	*Interest rate*	*Maturity*	*2022*	*2021*
Loan 1	GEL	3M CD +9.02%	December 2025	5,053	5,049
Loan 2	GEL	3M CD + 7.72%	April 2026	6,229	6,221
Loan 3	GEL	3M CD +7.55%	June 2026	4,033	4,032
Loan 4	GEL	13.55%	September 2026	3,363	3,362
Loan 5	GEL	13.55%	September 2026	3,363	3,362
Loan 6	GEL	16.5%	April 2027	6,953	6,953
Loan 7	GEL	16.5%	April 2027	6,953	6,953
Loan 8	GEL	3M TBIR + 7.8%	March 2028	11,720	11,713
Loan 9	GEL	15%	June 2028	3,881	3,881
Loan 10	GEL	15%	June 2028	3,881	3,881
Loan 11	GEL	14.75%	July 2028	3,763	3,763
Loan 12	GEL	14.75%	July 2028	3,763	3,763
Loan 13	USD	6M Libor + 6.5%	December 2028	12,216	13,821
Loan 14	EUR	5%	June 2029	8,673	−
Subordinated loans				**83,844**	**76,754**

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, 5, 6 and 7 were obtained from non−controlling shareholder of the Group (Note 31).

17. Changes in liabilities arising from financing activities and business combination

	Loans from banks and other financial institutions	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2020	**956,102**	**35,913**	**992,015**
Proceeds from disbursement	420,844	26,311	**447,155**
Proceeds from business combinations	40,638	14,457	**55,095**
Redemption	(413,362)	−	**(413,362)**
Foreign currency translation	(18,092)	(285)	**(18,377)**
Other	847	358	**1,205**
Carrying amount at 31 December 2021	**986,977**	**76,754**	**1,063,731**
Proceeds from disbursement	462,016	9,286	**471,302**
Redemption	(282,444)	−	**(282,444)**
Foreign currency translation	(32,429)	(2,396)	**(34,825)**
Other	(1,118)	200	**(918)**
Carrying amount at 31 December 2022	**1,133,002**	**83,844**	**1,216,846**

The "Other" line includes the effect of accrued but not yet paid interest on other borrowed funds and subordinated loans and modification gains or losses. The Group 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:

	2022	*2021*
Time deposits	418,506	304,139
Current accounts	182,059	95,634
Savings accounts	44,626	29,727
Accounts in course of settlement	114	492
	645,305	**429,992**

(Thousands of Georgian Lari)

19. Other liabilities

	2022	*2021*
Salaries accrued	15,230	11,318
Payables for goods and services	10,435	7,627
Payables to retail partners for consumer lending	7,714	299
Funds in settlement	3,670	1,769
Accrued expenses	1,733	1,580
Taxes other than income tax payable	190	241
Collateral under derivative contracts (Note 7)	−	1,921
Grant liabilities	−	745
Other liabilities	1,251	152
	40,223	**25,652**

20. Equity

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

As of 31 December 2022, the Bank had authorised, issued and fully paid 518,682 (2021: 517,678) common shares with nominal value of GEL 10.00. Each share entitles one vote to the shareholder.

	Number of shares		***Nominal amount***	
	Preferred	***Ordinary***	***Preferred***	***Ordinary***
31 December 2020	**−**	**440,000**	**−**	**4,400**
Increase in share capital	−	77,678	−	777
31 December 2021	**−**	**517,678**	**−**	**5,177**
Increase in share capital	−	1,004	−	10
31 December 2022	**−**	**518,682**		**5,187**

In 2022, the Group satisfied its share−based payment liability to its key management personnel in amount of GEL 480 by transferring 1,004 shares of the Bank with aggregate par value of GEL 10, previously held in treasury.

As at 31 December 2022, 3,286 (2021: 921) shares are held in treasury for the purpose of share−based awards satisfaction.

In 2021, the Bank issued 77,678 shares with aggregate par value of GEL 777 for cash consideration of GEL 36,082.

Dividends

In certain circumstances dividend distributions might be subject to the approval by the regulator.

On 10 June 2022, at the Extraordinary General Meeting of Shareholders, the Bank declared a dividend distribution in amount of GEL 5,500 for 2021 (GEL 0.011 per share). Dividend declared was fully paid to shareholders in 2022. The Bank declared a dividend distribution in amount of GEL 12,119 (GEL 0.023 per share) in 2021.

21. Commitments and contingencies

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments and other loan commitments – comprising mostly with Agro, tourism and urban SME loan's undrown tranches.

The Group 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.

(Thousands of Georgian Lari)

21. Commitments and contingencies (continued)

Credit related commitments (continued)

The Group 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:

	2022	*2021*
Other loan commitments	24,376	9,856
Undrawn limit on credit cards	20,616	23,668
Guarantees	306	30
	45,298	**33,554**

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 Group has unconditional right to cancel unused card balances.

Operating environment

Georgia like all emerging markets is subject to different risks: economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. For the last three years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2021 and 2022 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

Starting from early 2020 a new coronavirus disease (COVID−19) has begun rapidly spreading all over the world, including Georgia resulting in announcement of the pandemic status by the World Health Organisation in March 2020. Responses put in place by many countries to contain the spread of COVID−19 resulted in significant operational disruption for many companies and have significant impact on global financial markets. COVID−19 negatively impacted many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel and reduced demand.

In 2021 the government started to gradually lift numerous COVID−19 related restrictions as a response to massive vaccination, identification of newer and weaker variants. In 2022 government released all the COVID−19 related restrictions. This has had a positive overall impact on the economy, with estimated 10.1% real GDP growth in 2022 as per Geostat.

In the beginning of 2022 war started between Russia and Ukraine. As a result of the war, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It was expected that the war would have a significant impact on the Georgian economy. According to the NBG's baseline scenario dated December 2021, in 2022 the Georgian economy was expected to grow by 5.0%, average inflation rate was to reduce to 4.9%, the refinancing rate of the NBG was expected to be 9.0% and the average dollar exchange rate at GEL 3.1. In reality Georgian economy performed strongly in 2022 and expected adverse impact from Russia's war in Ukraine did not materialise. War−related immigration, a surge in financial inflows, a rebound in investments and a rise in cargo transit strengthened Georgian economy. Real GDP growth reached 10.1% in 2022 (as per Geostat) and the GEL appreciated against USD from December 2021 to December 2022 by 13%. Inflation (as per Geostat) remained high reaching 9.8% by the end of 2022, reflecting strong domestic demand and increased housing rents, on top of persistent food price pressures.

As the war is still waging, it is impossible to reliably assess the ultimate impact this may have on the Bank's business as there is uncertainty over the magnitude of the impact on the economy in general. The Bank's management is monitoring the economic situation in the current environment.

(Thousands of Georgian Lari)

21. Commitments and contingencies (continued)

Operating environment (continued)

As at 31 December 2022, further economic recovery is expected in 2023, which was reflected in the NBG's macroeconomic forecasts and scenarios. Management of the bank has accumulated sufficient capital and liquidity buffers and plans to follow to the economic restoration trend and approved strategic plans, by further expansion in the target market.

Legal

In the ordinary course of business, the Group 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 Group.

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 2022 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained.

Insurance

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

22. Fee and commission income

Fee and commission income comprises:

	2022	*2021*
Fees from credit related activities	29,717	27,582
Fees from settlement and cash operations	7,032	2,513
Fees from client accounts	5,621	5,279
Other	5,535	3,423
	47,905	**38,797**

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

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

	2022	*2021*
Accrued income receivable (presented within other financial assets)	1,271	1,274

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:

	2022	*2021*
Fees from settlement and cash operations	8,635	4,532
Fees from credit related activities	7,604	6,036
Other	110	92
	16,349	**10,660**

(Thousands of Georgian Lari)

24. Net losses from foreign currencies

Net losses from foreign currencies comprises:

	2022	*2021*
Translation differences	8,840	1,439
Dealing	5,908	1,834
Net result from foreign currency derivatives	(17,964)	(5,991)
	(3,216)	**(2,718)**

Net result from foreign currency derivatives includes GEL 7,650 interest element expenses related to swaps represented by amortisation of forward points (difference between the contractual forward and spot rates) (2021: 2,256) and similar interest element expense on other foreign currency derivatives of GEL 590 (2021: GEL 974). Net gain from foreign currencies exchange without swap and forwards interest elements for 2022 was GEL 5,024 (2021: net loss 512).

25. Other operating income

Other operating income comprises:

	2022	*2021*
Income from grants	1,306	677
Reversal of the provision for repossessed property (Note 15)	384	–
Gain from sale of repossessed property	2	172
Other	787	539
	2,479	**1,388**

26. Other operating expenses

Other operating expenses:

	2022	*2021*
Provisioning of court expenses	1,752	431
Expenses for disposal of property, plant and equipment	1	1,001
Other operating expense	294	520
	2,047	**1,952**

27. Personnel expenses

Personnel expenses comprise:

	2022	*2021*
Salary expenses	84,929	71,160
Other personnel expenses	12,221	9,108
	97,150	**80,268**

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

The average number of Group's full−time employees during 2022 and 2021 was:

Category	*2022*	*2021*
Directors	6	6
Management	156	158
Professional staff	3,044	2,650
Total	**3,206**	**2,814**

In addition to stated above, on average 2,869 employees were employed under temporary service contracts in 2022 (2021: 3,080).

(Thousands of Georgian Lari)

28. Other general administrative expenses

	2022	*2021*
Transport and travel expenses	7,168	5,569
Software expenses	3,693	4,353
Marketing, advertising and entertainment	3,392	2,517
Supplies and other consumables	3,337	2,739
Communication expenses	2,871	2,391
Legal and advisory expenses	2,354	3,450
Rent and utilities	2,212	2,173
Repair and maintenance	1,475	2,224
Operating taxes	1,402	1,509
Insurance expenses	900	493
Training	864	211
Security service expenses	317	319
Other	1,994	1,464
	31,979	**29,412**

Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Group's auditor for the years ended 31 December 2022 and 2021 comprises:

	2022	*2021*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	220	288
Expenditures for other professional services	5	7
	225	**295**

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 289 (2021: GEL 684).

29. Risk management

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The main risks the Group is exposed to include: credit risk, financial risk and operating risks. Risk management is performed different levels and each risk has a responsible structural unit. At second level, centralized risk management units (financial risk management, credit risk management, operational risk management, internal control function and compliance) take respective actions.

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 Group operates within the established risk parameters. The Management Board reports directly to the Supervisory Board.

Risk Management Committee (RMC)

RMC is a sub−committee of the SB and the body responsible for overseeing the Risk profile of the bank. The RMC assists the SB in fulfilling oversight responsibilities, which monitors Bank's risk profile, approves minimum control requirement for principal risks, including evaluation, monitoring and limits for the risks; debates and agrees actions on the risk profile and risk strategy across the Bank, evaluates effectiveness of the Bank's internal control and risk management systems, reviews risk analysis results and stress tests conducted by credit risk management unit and elaborates corresponding recommendations.

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.

(Thousands of Georgian Lari)

29. Risk management (continued)

Asset Liability Committee (ALCO) (Continued)

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group 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 and risk departments. There are several levels of approval based on loan amount and total exposure to client.

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 is approved by the Group's credit committee of appropriate level, depending on the amount and product of the loan and total exposure to the client. The Group 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. Internal Control, as a part of the second line of defence function, additionally verifies the correctness of the issued loans and gives recommendations to the management.

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

Impairment assessment

The Group 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.

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

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

The Group 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 Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group 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 Group 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 Group 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 Group 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 Group considers following factors which indicate default:

- Bankruptcy proceedings of the borrower have been initiated;
- The Group has initiated court procedures against the borrower;
- Breach of covenants or conditions, unless the Group 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 Group 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).

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

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

The Group 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 rate. The following macro−economic variables were involved in the analysis:

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

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

Key drivers	***2023***	***2024***	***2025***
GDP growth, %			
Upside (25% weight)	6.0%	5.0%	5.0%
Base case (50% weight)	4.0%	5.5%	5.0%
Downside (25% weight)	2.0%	4.0%	5.0%

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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group's historical experience and expert credit assessment including forward−looking information. If contractual payments are more than 30 days past due, Group considers the credit risk is deemed to have increased significantly since initial recognition.

(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 2022:

Loans to customers	***Total gross carrying value 31 December 2022***	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***
Not overdue	1,697,636	1,690,263	5,902	1,000	471
1 to 30 days overdue	7,261	6,515	681	65	–
31 to 60 days overdue	5,254	–	5,114	127	13
61 to 90 days overdue	4,636	–	4,044	592	–
Restructured loans overdue less than 90 days (R1)	64,930	–	62,523	2,293	114
Loans overdue more than 90 days; defaulted loans	9,189	–	–	9,183	6
Restructured loans overdue more than 90 days (R2)	3,653	–	–	3,653	–
Total loans to customers	**1,792,559**	**1,696,778**	**78,264**	**16,913**	**604**

The Group determined that significant increase in credit risk occurred for such loans and recognised 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 2021:

Loans to customers	***Total gross carrying value 31 December 2021***	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***
Not overdue	**1,333,434**	1,282,696	49,495	984	259
1 to 30 days overdue	**6,320**	5,222	954	141	3
31 to 60 days overdue	**3,955**	–	3,667	274	14
61 to 90 days overdue	**3,446**	–	2,752	694	–
Restructured loans overdue less than 90 days (R1)	**124,261**	23,433	95,004	5,001	823
Loans overdue more than 90 days; defaulted loans	**10,514**	–	–	10,500	14
Restructured loans overdue more than 90 days (R2)	**5,807**	–	–	5,738	69
Total loans to customers	**1,487,737**	**1,311,351**	**151,872**	**23,332**	**1,182**

Financial risk

Group 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.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances to limit this risk, management has arranged diversified funding sources, 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.

(Thousands of Georgian Lari)

29. Risk management (continued)

Liquidity risk (continued)

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 Group'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 Group, 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 at 31 December 2022 and 2021 the ratio was as follows:

	2022	***2021***
LK "Liquidity Coverage Ratio" in FC (hold high−quality liquid assets / Total net cash outflow)	252%	396%
LK "Liquidity Coverage Ratio" in NC (hold high−quality liquid assets / Total net cash outflow)	190%	318%
Total LK "Liquidity Coverage Ratio" (hold high−quality liquid assets / Total net cash outflow)	224%	354%

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

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 2022, the Group's NSFR was 126% (2021: 127%).

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December 2022 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	268,774	−	−	**268,774**
Amounts due from credit institutions	−	30,039	−	**30,039**
Gross−settled derivatives financial instruments	172,447	−	−	**172,447**
Loans to customers	105,507	919,866	1,314,711	**2,340,084**
Investment securities	89	3,533	57,676	**61,298**
Other financial assets	12,774	3,443	1,074	**17,291**
Total financial assets	**559,591**	**956,881**	**1,373,461**	**2,889,933**
Loans from banks and other financial institutions	58,751	369,434	939,851	**1,368,036**
Gross−settled derivative financial instruments	171,045	−	−	**171,045**
Customer accounts	257,936	374,436	38,640	**671,012**
Other payables	30,793	7,917	133	**38,843**
Lease liabilities	649	6,489	13,189	**20,327**
Subordinated debt	1,029	11,095	125,891	**138,015**
Total financial liabilities	**520,203**	**769,371**	**1,117,704**	**2,407,278**
Financial irrevocable commitments and contingencies	24,682	−	−	**24,682**
Maturity gap	**14,706**	**187,510**	**255,757**	**457,973**

(Thousands of Georgian Lari)

29. Risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December 2021 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 inflow / outflow*
Cash and cash equivalents	185,108	–	–	**185,108**
Amounts due from credit institutions	–	19,144	–	**19,144**
Gross−settled derivatives financial instruments	1,569	1,873	–	**3,442**
Loans to customers	93,609	776,724	1,025,269	**1,895,602**
Investment securities	339	7,425	62,095	**69,859**
Other financial assets	7,654	1,910	560	**10,124**
Total financial assets	**288,279**	**807,076**	**1,087,924**	**2,183,279**
Loans from banks and other financial institutions	50,539	349,605	810,956	**1,211,100**
Gross−settled derivative financial instruments	1,641	566	–	**2,207**
Customer accounts	149,108	238,619	64,773	**452,500**
Other payables	19,525	5,911	–	**25,436**
Lease liabilities	518	4,539	5,202	**10,259**
Subordinated debt	1,019	9,931	124,911	**135,861**
Total financial liabilities	**222,350**	**609,171**	**1,005,842**	**1,837,363**
Financial irrevocable commitments and contingencies	9,886	–	–	**9,886**
Maturity gap	**56,043**	**197,905**	**82,082**	**336,030**

Currency risk

Foreign currency asset and liability matching is the key tool in monitoring the net open foreign currency (FX) position of the Group. The table below quantifies the net open FX position for the Group 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:

	2022			*2021*		
	USD	*EUR*	*Other FC*	*USD*	*EUR*	*Other FC*
Cash and cash equivalents	81,653	62,092	168	68,375	9,352	1,426
Amounts due from credit institutions	20,096	9,943	–	10,667	8,477	–
Loans to customers	86,049	102,819	–	46,108	88,110	–
Other monetary assets	5,061	973	18	1,306	659	668
Total assets	**192,859**	**175,827**	**186**	**126,456**	**106,598**	**2,094**
Loans and borrowings	(61,796)	(251,794)	–	(61,135)	(87,436)	(1,383)
Customer accounts	(179,547)	(35,149)	(194)	(76,053)	(18,534)	(263)
Lease liabilities	(7,523)	–	–	(2,725)	–	–
Other monetary liabilities	(3,895)	(640)	(7)	(2,567)	(30)	(30)
Total liabilities	**(252,761)**	**(287,583)**	**(201)**	**(142,480)**	**(106,000)**	**(1,676)**
The effect of derivatives held for risk management	59,444	111,915	–	17,933	(245)	(1,791)
Net position after derivatives held for risk management purposes	**(458)**	**159**	**(15)**	**1,909**	**353**	**(1,373)**

(Thousands of Georgian Lari)

29. Risk management (continued)

Currency risk (continued)

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the foreign currency at 31 December 2022 and 2021 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 Group 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.

	2022	***2021***
20% appreciation of foreign currency against GEL	(63)	178
20% depreciation of foreign currency against GEL	63	(178)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows. Group's loans to clients are issued mostly at fixed rates, loans that are disbursed at floating rate are linked to NBG's refinance rate. As for the borrowings − part of the borrowings are at floating rates, linked to TIBR rate. Loan rates can be changed upon renewal of the loans. Therefore, Group 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. Group continuously works to set interest rates in a competitive environment and negotiates funding terms with the investors.

The sensitivity of the consolidated 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 2022***	***Sensitivity of net interest income 2021***
GEL (+1%/ −1%)	5,701 / (5,701)	5,080 / (5,080)
USD (+1/−1%)	137 / (137)	286 / (286)

The table reflects asset and liabilities that are exposed to interest rate risk as of 31 December 2022:

	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	268,774	−	−	**268,774**
Amounts due from credit institutions	−	30,039	−	**30,039**
Loans and advances to customers	166,278	1,087,184	497,252	**1,750,714**
Investment securities	960	−	47,909	**48,869**
Total interest−bearing assets	**436,012**	**1,117,223**	**545,161**	**2,098,396**
Loans from banks and other financial institutions, including subordinated debt	172,321	643,935	400,590	**1,216,846**
Customer accounts	264,878	344,836	35,591	**645,305**
Lease liabilities	501	5,135	11,332	**16,968**
Total interest−bearing liabilities	**437,700**	**993,906**	**447,513**	**1,879,119**
Interest rate maturity gap	**(1,688)**	**123,317**	**97,648**	**219,277**

(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 2021:

	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	185,108	–	–	**185,108**
Amounts due from credit institutions	–	19,144	–	**19,144**
Loans and advances to customers	109,837	719,473	602,841	**1,432,151**
Investment securities	1,196	4,024	47,885	**53,105**
Total interest−bearing assets	**296,141**	**742,641**	**650,726**	**1,689,508**
Loans from banks and other financial institutions, including subordinated debt	202,760	607,163	253,808	**1,063,731**
Customer accounts	153,713	217,351	58,928	**429,992**
Lease liabilities	440	3,877	4,607	**8,924**
Total interest−bearing liabilities	**356,913**	**828,391**	**317,343**	**1,502,647**
Interest rate maturity gap	**(60,772)**	**(85,750)**	**333,383**	**186,861**

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 2022 and 2021 is as follows:

	2022	*2021*
	Profit (loss)	*Profit (loss)*
100 bp parallel fall	(1,216)	1,465
100 bp parallel rise	1,216	(1,465)

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. During 2022, the Group continued to design detailed plans, processes and procedures to support the transition in the future periods when the majority of the Group's IBOR−linked exposures are planned to be transitioned to the new benchmark rates.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

The Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs is limited to loans from banks and other financial institutions with carrying value as at 31 December 2022 of GEL 13,510 linked to 6m LIBOR. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., this amount excludes exposures to IBOR that will expire before transition is required. The Group's contracts include a fallback clause for automatic transition to RFRs at their respective effective dates.

(Thousands of Georgian Lari)

29. Risk management (continued)

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

30. Fair value measurements

Fair value measurement procedures

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

The Group’s financial department determines the policies and procedures for fair value measurement for Group’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 2022 and 2021, the Group 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 2022 and 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Fair value measurement using			
At 31 December 2022	***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	1,011	−	**1,011**	**1,011**
Assets for which fair values are disclosed				
Cash and cash equivalents	268,773	−	**268,773**	**268,774**
Amounts due from credit institutions	30,039	−	**30,039**	**30,039**
Loans to customers	−	1,550,351	**1,550,351**	**1,750,714**
Investment securities	48,869	−	**48,869**	**48,869**
Liabilities for which fair values are disclosed				
Loans from banks and other financial institutions, including subordinated debt	1,213,652	−	**1,213,652**	**1,216,846**
Customer accounts	647,251	−	**647,251**	**645,305**
Lease liabilities	16,968	−	**16,968**	**16,968**

(Thousands of Georgian Lari)

30. Fair value measurements

Fair value hierarchy

At 31 December 2021	*Fair value measurement using* 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	1,893	–	**1,893**	**1,893**
Assets for which fair values are disclosed				
Cash and cash equivalents	185,108	–	**185,108**	**185,108**
Amounts due from credit institutions	19,144	–	**19,144**	**19,144**
Loans to customers	–	1,141,230	**1,141,230**	**1,432,151**
Investment securities	53,105	–	**53,105**	**53,105**
Liabilities for which fair values are disclosed				
Loans from banks and other financial institutions, including subordinated debt	1,062,285	–	**1,062,285**	**1,063,731**
Customer accounts	432,046	–	**432,046**	**429,992**
Lease liabilities	8,924	–	**8,924**	**8,924**

Valuation techniques and assumptions

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

(Thousands of Georgian Lari)

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.

	2022		2021	
	Transaction value	***Balance***	***Transaction value***	***Balance***
Consolidated statement of financial position				
Liabilities				
Loans from banks and other financial institutions except subordinated	−	125,485	−	107,955
Subordinated debt	−	35,920	−	35,920
Customer accounts	−	1,272	−	1,236
Profit or loss				
Loans from banks and other financial institutions except subordinated − interest expense	13,728	−	14,405	−
Subordinated debt − interest expense	5,323	−	4,203	−
Customer account−interest expense	31	−	45	−
Other general and administrative expense	1,205	−	1,397	−

Loans from banks and other financial institutions, subordinated debt and their related interest expense represent transactions with shareholders with significant influence over the Group. In addition, other general and administrative expenses represent consultation service fees provided by the controlling shareholder. As at 31 December 2022 loans received from related parties mature from June 2024 to July 2028, are denominated in EUR and GEL and carry interest rates from 3.90% to 16.50%. Customer accounts are attributed to the members of key management personnel.

As at 31 December 2021 loans received from related parties mature from July 2022 to July 2028, are denominated in EUR and GEL and carry interest rates from 3.70% to 16.50%.

Transactions with key management personnel

Total remuneration included in employee compensation for the year ended 31 December and represented by short−term benefits and share−based payment expenses:

	2022	*2021*
Members of the Management Board	4,409	3,455

In 2022 the Group granted cash−settled share−based awards to the members of the Management Board. Share−based payment expense for 2022 was GEL 485 (2021: 122)

32. Capital adequacy

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

As at 31 December 2022 and 2021, the Group complied with all its externally imposed capital requirements.

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

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

(Thousands of Georgian Lari)

32. Capital adequacy (continued)

NBG Capital adequacy ratio

Regulatory capital consists of Tier 1 capital, which comprises common shares, reserve fund and retained earnings including 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 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.

As of 31 December 2022, under total Basel II/III requirements the Group was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 13.62%, 8.44% and 10.42%, respectively (2021: 13.77%, 8.11%, 9.98%,).

The Group was in compliance with these capital adequacy ratios as of 31 December 2022 and 2021. The Group's capital adequacy ratios on this basis were as follows:

	2022	***2021***
Common Equity Tier 1 capital	214,666	190,970
Additional Tier 1 capital	−	−
Tier 1 capital	**214,666**	**190,970**
Tier 2 capital	87,523	84,949
Total regulatory capital	**302,189**	**275,919**
Risk weighted assets	**1,997,563**	**1,655,955**
Common Equity Tier 1 capital ratio	10.75%	11.53%
Total Tier 1 capital adequacy ratio	10.75%	11.53%
Regulatory capital ratio	15.13%	16.66%

33. Events after reporting period

In March 2023, the Bank received a subordinated loan in foreign currency equivalent of GEL 12,802, due in 2030. The transaction has been approved by the NBG and is eligible to be included to the Bank's Tier 2 capital.

According to terms of the updated NBG's regulation, capital requirements for Georgian banks are calculated based on IFRS starting from January 2023. The transition significantly improved Group's Common Equity Tier 1, Tier1 and Regulatory Capital positions, mostly due to lower risk weighted assets (methodological change under new regulation), higher retained earnings and lower amount of expected credit losses recognised under IFRS as compared to statutory provisions.