JSC Credo Bank

Financial statements

Year ended 31 December 2023
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
JSC Credo Bank

Opinion

We have audited the financial statements of JSC Credo Bank (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in Bank's 2023 Management Report

Other information consists of the information included in the Bank's 2023 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Management Report is expected to be available to us after the date of this auditor's report.

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

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

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Responsibilities of management and the Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Dmytro Iurgelevych (SARAS-A-644274)

On behalf of EY LLC (SARAS-F-855308)

27 March 2024

Tbilisi, Georgia

Statement of financial position

As at 31 December 2023

(Thousands of Georgian Lari)

	Note	*2023*	*2022*
Assets			
Cash and cash equivalents	5	273,068	268,774
Amounts due from credit institutions	6	47,938	30,039
Derivative financial assets	7	1,688	1,011
Loans to customers	8	1,981,571	1,750,714
Investment securities at amortised cost	9	48,889	48,869
Current income tax asset		2,161	1,653
Right−of−use assets	12	20,060	16,201
Property and equipment	10	25,847	20,452
Intangible assets	11	24,667	21,081
Other financial assets	14	23,436	17,291
Other non−financial assets	15	20,439	11,546
Total assets		**2,469,764**	**2,187,631**
Liabilities			
Customer accounts	18	853,921	645,305
Lease liabilities	12	21,267	16,968
Loans from banks and other financial institutions	16, 17	1,104,075	1,133,002
Other liabilities	19	51,244	40,223
Deferred income tax liabilities	13	5,101	3,787
Subordinated debt	16, 17	127,236	83,844
Total liabilities		**2,162,844**	**1,923,129**
Equity			
Share capital	20	5,210	5,187
Additional paid−in capital		37,097	35,775
Retained earnings		264,613	223,540
Total equity		**306,920**	**264,502**
Total liabilities and equity		**2,469,764**	**2,187,631**

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

Zaal Pirtskhelava — Chief Executive Officer

Erekle Zatiashvili — Chief Financial Officer

27 March 2024

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of profit and loss and other comprehensive income

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Note	*2023*	*2022*
Interest income calculated using effective interest method			
Loans to customers		439,125	392,765
Cash and balances with banks		10,959	7,940
Investment securities		4,492	4,772
		454,576	**405,477**
Interest expense			
Loans from banks and other financial institutions		(133,081)	(133,691)
Customer accounts		(50,792)	(37,551)
Subordinated debt		(13,895)	(11,955)
Lease liabilities		(1,634)	(1,478)
		(199,402)	**(184,675)**
Deposit insurance fee		(1,306)	(792)
Net interest income		**253,868**	**220,010**
Credit loss expense on loans to customers	8	(57,957)	(49,964)
Net interest income after credit loss expense		**195,911**	**170,046**
Fee and commission income	22	51,524	47,905
Fee and commission expense	23	(22,663)	(16,349)
Net fee and commission income		**28,861**	**31,556**
Net losses from foreign currencies	24	(8,645)	(3,216)
Other operating income	25	636	2,479
Other operating expense	26	(1,695)	(2,047)
Net non−interest income		**19,157**	**28,772**
Personnel expenses	27	(116,580)	(97,150)
Other general administrative expenses	28	(30,966)	(31,979)
Depreciation and amortization	10, 11, 12	(19,040)	(16,255)
Non−interest expenses		**(166,586)**	**(145,384)**
Profit before income tax expense		**48,482**	**53,434**
Income tax expense	13	(7,409)	(8,223)
Profit for the year		**41,073**	**45,211**
Other comprehensive income		–	–
Total comprehensive income for the year		**41,073**	**45,211**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Share capital	*Additional paid−in capital*	*Retained earnings*	*Total equity*
1 January 2022	**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**
Profit for the year	−	−	41,073	**41,073**
Total comprehensive income for the year	**−**	**−**	**41,073**	**41,073**
Share capital increase (Note 20)	23	1,322	−	**1,345**
31 December 2023	**5,210**	**37,097**	**264,613**	**306,920**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

(Thousands of Georgian Lari)

	Note	2023	2022
Cash flows from operating activities			
Interest received		450,285	404,256
Interest paid		(197,223)	(184,737)
Fees and commissions received		50,712	48,948
Fees and commissions paid		(22,663)	(16,349)
Realised losses from dealing in foreign currencies and related derivatives		(6,384)	(11,173)
Other income received		747	2,016
Other expense paid		(1,695)	(2,047)
Personnel expenses paid		(113,268)	(93,238)
Other operating expenses paid		(28,075)	(24,229)
Cash flows from operating activities before changes in operating assets and liabilities		**132,436**	**123,447**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(17,019)	(14,440)
Loans to customers		(289,532)	(396,466)
Other assets		(7,053)	(8,279)
Net increase/(decrease) in operating liabilities			
Customer accounts		207,499	231,110
Other liabilities		4,858	2,767
Net cash flows from (used in) operating activities before income tax		**31,189**	**(61,861)**
Income tax paid		(6,604)	(8,406)
Net cash from (used in) operating activities		**24,585**	**(70,267)**
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(21,221)	(15,419)
Proceeds from redemption of investments securities		–	4,350
Proceeds from sale of property and equipment		267	2
Net cash used in investing activities		**(20,954)**	**(11,067)**
Cash flows from financing activities			
Proceeds from borrowings and subordinated loans	17	300,099	471,302
Repayment of borrowings and subordinated loans	17	(295,274)	(282,444)
Repayment of lease liabilities	12	(6,311)	(7,187)
Dividends paid	20	–	(5,500)
Net cash (used in) from financing activities		**(1,486)**	**176,171**
Net increase in cash and cash equivalents		**2,145**	**94,837**
Effect of exchange rates changes on cash and cash equivalents		2,149	(11,171)
Cash and cash equivalents, beginning	5	268,774	185,108
Cash and cash equivalents, ending	5	**273,068**	**268,774**

The accompanying notes on pages 5 to 44 are an integral part of these 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”).

The Bank supports the development of the private economy of Georgia by providing credit and related services to micro, small and medium−sized entrepreneurs, and companies. The Bank’s company identification code is 205232238. The legal address of the Bank is 27, Revaz Tabukashvili Street, Tbilisi, Georgia.

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 2023 was as follows:

	Ownership %	
Shareholder	***2023***	***2022***
Access Microfinance Holding AG	50.84%	51.07%
Triodos SICAV II (Triodos Microfinance Fund)	8.36%	8.40%
Legal Owner Triodos Funds B.V.	8.36%	8.40%
responsAbility Participations AG	7.89%	7.92%
responsAbility SICAV (Lux) – (Micro and SME Finance Leaders)	1.58%	1.59%
responsAbility Global Micro and SME Finance Fund	7.42%	7.46%
Société de Promotion et de Participation pour la Coopération Economique (Proparco)	14.86%	14.93%
Management Board	0.69%	0.24%

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

As at 31 December 2023 and 2022 the Bank’s parent and ultimate controlling party with 50.84% (2022: 51.07%) of the voting rights is Joint Stock Company Access Microfinance Holding AG, Germany.

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

Business environment

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

2. Basis of preparation

General

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

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

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. Material accounting policy information

New and amended standards

The Bank 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 Bank's activities that became effective in 2023 had no material impact on the Bank's financial position or results of operations:

- International Tax Reform – Pillar two model Rules – Amendments to IAS 12
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statements 2
- IFRS 17 Insurance Contracts
- Definition of Accounting estimates – Amendments to IAS 8
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12, effective from 1 January 2023, narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with right−of−use assets and lease liabilities.

The Bank previously did not recognize deferred tax assets and liabilities attributable to right−of−use assets and lease liabilities. Accordingly, in these financial statements the Bank recognize deferred tax assets and liabilities in relation to leases entered into on or after 1 January 2022, being the earliest comparative period presented. This did not affect materially statement of financial position as at 1 January 2022 and 31 December 2022 or profit or loss for the year ended 31 December 2022, as the difference between resulting deferred tax assets and liabilities at those dates was not material and they were subject to offset in accordance with IAS 12. The Bank amended presentation of its deferred tax assets and liabilities in Note 13 accordingly, including comparative periods.

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

The amendment's aim is 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 Bank assessed the impact of the amendment, which has an impact on the disclosures of accounting policies, but did not have an impact on measurement, recognition, and presentation of the Bank's financial statements.

The Bank revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Bank has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Bank chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

IFRS 17 Insurance Contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023. 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.

The Bank evaluated insurance risks associated with its contracts, taking into consideration the scope exclusions for certain banking products, and concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Other amendments and interpretations that apply for the first time in 2023 do not have an impact on the Bank's financial statements.

(Thousands of Georgian Lari)

3. Material accounting policy information (continued)

Fair value measurement

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at 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 Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

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.

All of the Bank's financial assets and liabilities are measured at amortized cost, with exception to derivatives which are measured at FVPL.

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.

(Thousands of Georgian Lari)

3. Material accounting policy information (continued)

Mandatory reserve deposit with the NBG

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

Renegotiated loans

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

Modifications resulting in derecognition

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

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

Modifications not resulting in derecognition

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

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

Derecognition of financial assets and liabilities

Write−off

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms (such as where the present value of the modified cash flows discounted using the original effective interest rate differs by more than 10% from the carrying value of the original liability), or the terms of an existing liability are substantially modified (for example, by changing the currency of denomination, changing interest rate accrual basis from fixed to floating or visa versa, or by introduction of an equity conversion feature), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(Thousands of Georgian Lari)

3. Material accounting policy information (continued)

Derivative financial instruments

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

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

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

Leases

Bank as a lessee

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

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is normally not readily determinable.

Short−term leases and leases of low value assets

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

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. 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

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. Intangible assets 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.

(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.

Recognition of income and expenses

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

Interest and similar income and expense

The Bank 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 Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income from life insurance and other service fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and 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.

Foreign currency translation

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

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.

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 2023 and 31 December 2022 were GEL 2.6894 and GEL 2.702 GEL to 1 USD, GEL 2.9753 and GEL 2.8844 to 1 EUR, respectively.

(Thousands of Georgian Lari)

3 Summary of accounting policies (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are not expected to have a material impact on the Bank's financial statements. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective:

- *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;*
- *Amendments* to IAS 1: *Classification of Liabilities as Current or Non−current*;
- *Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7.*

4. Significant accounting judgments and estimates

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

Judgments

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

The Bank determines the lease term as the non−cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. At inception of the lease, the Bank 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 Bank'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:

Impairment losses on financial assets

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

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

As at 31 December 2023, the Bank introduced certain changes in its process of estimation of expected credit losses. Contamination methodology was calibrated based on product credit risk characteristics to extend the scope of contamination between loan products classified as "Instant exposures" (those loans granted under simplified financial analysis) and "Standard exposures" (those loans subject to more scrutinized underwriting process), which previously were considered separately in staging determination. The corresponding financial effect of the methodology calibration was resulting in increase of ECL loss by approximately GEL 4.8 million recognised in profit or loss for 2023. Refer to Notes 8 and 29.

(Thousands of Georgian Lari)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	*2022*
Cash on hand and in ATMs	91,229	78,303
Current accounts with the NBG	99,194	21,563
Current accounts with other credit institutions	82,645	113,908
Term deposits with the NBG with original maturity below 90 days	−	55,000
Cash and cash equivalents	**273,068**	**268,774**

As at 31 December 2023, all cash and cash equivalents relate to stage 1 of ECL assessment. ECLs are not material. As of 31 December 2023 most of current accounts are placed with A− rated banks (as at December 2022 most current accounts were placed with BB− rated banks). As at 31 December 2023, current accounts and time deposits with credit institutions denominated in USD, EUR and GEL represent 9%, 33% and 58% of total current and time deposits, respectively (31 December 2022: USD 31%, EUR 28% and GEL 41%, respectively).

Included in current account with NBG as at 31 December 2023 is GEL 35,278 mandatory reserve denominated in Georgian Lari. The Bank has access on these funds in demand, subject to compliance with the requirement to keep that amount as an average reserve balance over a specified period of time.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2023	*2022*
Obligatory reserve with the NBG	47,938	30,039
Amounts due from credit institutions	**47,938**	**30,039**

The Bank is required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% to 20% (2022: 5% to 25%) of the average of funds attracted from customers and non−resident financial institutions for the appropriate two−week period in GEL and foreign currencies. The Bank earns 0% (USD) and 9.5% (GEL) on these deposits (2022: 0% (USD) and 11.00% (GEL)). Obligatory reserve with the NBG includes reserves for foreign currency denominated funds.

7. Derivative financial instruments

The Bank enters into derivative financial instruments to mitigate currency risk (Note 29). The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2023			*2022*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign currency contracts						
Cross−currency swaps – domestic	238,025	1,688	−	171,359	1,011	−
Total derivative assets/liabilities		**1,688**	−		**1,011**	−

Contracts are concluded with Georgian entities.

As of 31 December 2023 and 2022 the Bank has positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates on specified notional amounts.

(Thousands of Georgian Lari)

8. Loans to customers

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

	2023	*2022**
Agro loans	941,316	861,415
Urban loans	628,136	572,017
Retail	200,193	172,666
Mortgage	103,631	72,644
Tourism loans	68,115	70,502
Other	83,710	43,315
Gross loans to customers	**2,025,101**	**1,792,559**
Less: expected credit losses	(43,530)	(41,845)
Loans to customers	**1,981,571**	**1,750,714**

* Comparative information was updated to conform with current period presentation of portfolio breakdown by product.

For the purpose of ECL assessment, the Bank's loan portfolio is divided by business and retail 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. Retail lending is divided by retail and mortgage loans. The Bank applied the following segmentation for assessment of ECL of loans to customers based on credit risk profile:

	2023	*2022**
Urban micro and retail loans	762,845	697,293
SME and Mortgage loans	660,866	500,284
Agro micro and tourism micro loans	601,390	594,982
Gross loans to customers	**2,025,101**	**1,792,559**
Less: expected credit losses	(43,530)	(41,845)
Loans to customers	**1,981,571**	**1,750,714**

* Comparative information, including ECL and gross carrying value rolls, was updated to conform with current period presentation of portfolio breakdown prepared for ECL assessment purposes.

The Bank provides loans in GEL, USD and EUR. 90% of the gross loan portfolio is denominated in GEL (2022: 89%).

As at 31 December 2023, loans to customers with carrying amount of GEL 9,245 (2022: GEL 5,014) were pledged as collateral under loans received from the NBG.

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 2023 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 2023	**1,696,778**	**78,264**	**16,914**	**603**	**1,792,559**
New assets originated or purchased	1,790,049	–	–	–	**1,790,049**
Assets repaid	(1,798,275)	(21,526)	(1,926)	(398)	**(1,822,125)**
Transfers to Stage 1	59,207	(53,115)	(6,092)	–	**–**
Transfers to Stage 2	(112,543)	127,877	(15,334)	–	**–**
Transfers to Stage 3	(2,695)	(76,010)	78,705	–	**–**
Amounts written off	–	–	(71,111)	(25)	**(71,136)**
Foreign exchange and other movements	298,712	18,627	18,404	11	**335,754**
At 31 December 2023	**1,931,233**	**74,117**	**19,560**	**191**	**2,025,101**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**16,275**	**13,752**	**11,780**	**38**	**41,845**
New assets originated or purchased	16,378	–	–	–	**16,378**
Assets repaid	(19,120)	(3,809)	(842)	(19)	**(23,790)**
Transfers to Stage 1[1]	12,513	(9,494)	(3,019)	–	**–**
Transfers to Stage 2	(17,474)	21,129	(3,655)	–	**–**
Transfers to Stage 3	(2,804)	(24,166)	26,970	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	7,650	11,180	40,321	11	**59,162**
Amounts written off	–	–	(71,111)	(25)	**(71,136)**
Foreign exchange and other movements	2,667	3,225	15,179	–	**21,071**
At 31 December 2023	**16,085**	**11,817**	**15,623**	**5**	**43,530**

Segment analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2023 is as follows:

Agro micro and tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**555,907**	**31,952**	**6,937**	**186**	**594,982**
New assets originated or purchased	521,611	–	–	–	**521,611**
Assets repaid	(611,305)	(7,420)	(804)	(122)	**(619,651)**
Transfers to Stage 1	21,400	(19,760)	(1,640)	–	**–**
Transfers to Stage 2	(38,609)	45,775	(7,166)	–	**–**
Transfers to Stage 3	(657)	(28,938)	29,595	–	**–**
Amounts written off	–	–	(26,683)	(19)	**(26,702)**
Foreign exchange and other movements	115,584	8,651	6,923	(8)	**131,150**
At 31 December 2023	**563,931**	**30,260**	**7,162**	**37**	**601,390**

Agro micro and tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**5,483**	**5,612**	**4,756**	**24**	**15,875**
New assets originated or purchased	4,712	–	–	–	**4,712**
Assets repaid	(5,893)	(1,290)	(363)	(12)	**(7,558)**
Transfers to Stage 1	3,867	(3,247)	(620)	–	**–**
Transfers to Stage 2	(6,552)	8,278	(1,726)	–	**–**
Transfers to Stage 3	(556)	(8,632)	9,188	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	2,939	2,751	15,636	9	**21,335**
Amounts written off	–	–	(26,683)	(19)	**(26,702)**
Foreign exchange and other movements	1,032	1,402	5,768	(1)	**8,201**
At 31 December 2023	**5,032**	**4,874**	**5,956**	**1**	**15,863**

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)

SME and Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**483,144**	**16,364**	**611**	**165**	**500,284**
New assets originated or purchased	421,730	–	–	–	**421,730**
Assets repaid	(321,512)	(6,737)	(215)	(138)	**(328,602)**
Transfers to Stage 1	14,078	(12,250)	(1,828)	–	**–**
Transfers to Stage 2	(23,484)	24,094	(610)	–	**–**
Transfers to Stage 3	(657)	(7,531)	8,188	–	**–**
Amounts written off	–	–	(3,928)	–	**(3,928)**
Foreign exchange and other movements	69,849	868	667	(2)	**71,382**
At 31 December 2023	**643,148**	**14,808**	**2,885**	**25**	**660,866**

SME and Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**1,616**	**2,015**	**237**	**2**	**3,870**
New assets originated or purchased	1,336	–	–	–	**1,336**
Assets repaid	(1,426)	(1,335)	(88)	(3)	**(2,852)**
Transfers to Stage 1	2,571	(1,946)	(625)	–	**–**
Transfers to Stage 2	(1,571)	1,562	9	–	**–**
Transfers to Stage 3	(582)	(2,128)	2,710	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(416)	3,154	3,028	1	**5,767**
Amounts written off	–	–	(3,928)	–	**(3,928)**
Foreign exchange and other movements	186	83	403	–	**672**
At 31 December 2023	**1,714**	**1,405**	**1,746**	**–**	**4,865**

Urban micro and retail loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**657,727**	**29,948**	**9,366**	**252**	**697,293**
New assets originated or purchased	846,708	–	–	–	**846,708**
Assets repaid	(865,458)	(7,369)	(907)	(138)	**(873,872)**
Transfers to Stage 1	23,729	(21,105)	(2,624)	–	**–**
Transfers to Stage 2	(50,450)	58,008	(7,558)	–	**–**
Transfers to Stage 3	(1,381)	(39,541)	40,922	–	**–**
Amounts written off	–	–	(40,500)	(6)	**(40,506)**
Foreign exchange and other movements	113,279	9,108	10,814	21	**133,222**
At 31 December 2023	**724,154**	**29,049**	**9,513**	**129**	**762,845**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

Urban micro and retail loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**9,176**	**6,125**	**6,787**	**12**	**22,100**
New assets originated or purchased	10,330	–	–	–	**10,330**
Assets repaid	(11,801)	(1,184)	(391)	(4)	**(13,380)**
Transfers to Stage 1	6,075	(4,301)	(1,774)	–	**–**
Transfers to Stage 2	(9,351)	11,289	(1,938)	–	**–**
Transfers to Stage 3	(1,666)	(13,406)	15,072	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	5,127	5,275	21,657	1	**32,060**
Amounts written off	–	–	(40,500)	(6)	**(40,506)**
Foreign exchange and other movements	1,449	1,740	9,008	1	**12,198**
At 31 December 2023	**9,339**	**5,538**	**7,921**	**4**	**22,802**

An aggregate analysis of changes in the gross carrying value and corresponding ECL for the year ended 31 December 2022 (as represented to conform with current period presentation) is as follows:

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[2]	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**

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)

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

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

Agro micro and tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**482,879**	**41,735**	**7,427**	**430**	**532,471**
New assets originated or purchased	539,882	–	–	–	**539,882**
Assets repaid	(568,663)	(13,252)	(1,556)	(235)	**(583,706)**
Transfers to Stage 1	32,127	(28,935)	(3,192)	–	**–**
Transfers to Stage 2	(45,243)	54,459	(9,216)	–	**–**
Transfers to Stage 3	(644)	(30,805)	31,449	–	**–**
Amounts written off	–	–	(25,190)	(48)	**(25,238)**
Foreign exchange and other movements	115,569	8,750	7,215	39	**131,573**
At 31 December 2022	**555,907**	**31,952**	**6,937**	**186**	**594,982**

Agro Micro and tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**3,570**	**8,626**	**5,394**	**69**	**17,659**
New assets originated or purchased	4,148	–	–	–	**4,148**
Assets repaid	(5,507)	(2,033)	(1,071)	(35)	**(8,646)**
Transfers to Stage 1	10,672	(8,157)	(2,515)	–	**–**
Transfers to Stage 2	(6,074)	13,316	(7,242)	–	**–**
Transfers to Stage 3	(595)	(10,296)	10,891	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(1,871)	2,645	19,542	33	**20,349**
Amounts written off	–	–	(25,190)	(48)	**(25,238)**
Foreign exchange and other movements	1,140	1,511	4,947	5	**7,603**
At 31 December 2022	**5,483**	**5,612**	**4,756**	**24**	**15,875**

SME and Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**275,572**	**50,769**	**3,668**	**285**	**330,294**
New assets originated or purchased	360,128	–	–	–	**360,128**
Assets repaid	(192,147)	(10,426)	(139)	(95)	**(202,807)**
Transfers to Stage 1	37,746	(37,121)	(625)		**–**
Transfers to Stage 2	(15,668)	20,217	(4,549)	–	**–**
Transfers to Stage 3	(242)	(4,498)	4,740	–	**–**
Amounts written off	–	–	(3,028)	(53)	**(3,081)**
Foreign exchange and other movements	17,755	(2,577)	544	28	**15,750**
At 31 December 2022	**483,144**	**16,364**	**611**	**165**	**500,284**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

SME and Mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**520**	**2,739**	**1,348**	**33**	**4,640**
New assets originated or purchased	872	–	–	–	**872**
Assets repaid	(673)	(395)	(44)	(8)	**(1,120)**
Transfers to Stage 1	3,109	(2,775)	(334)	–	**–**
Transfers to Stage 2	(381)	1,843	(1,462)	–	**–**
Transfers to Stage 3	(242)	(605)	847	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(1,645)	1,526	2,699	30	**2,610**
Amounts written off	–	–	(3,028)	(53)	**(3,081)**
Foreign exchange and other movements	56	(318)	211	–	**(51)**
At 31 December 2022	**1,616**	**2,015**	**237**	**2**	**3,870**

Urban micro and retail loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2021	**552,901**	**59,367**	**12,237**	**467**	**624,972**
New assets originated or purchased	786,420	–	–	–	**786,420**
Assets repaid	(776,921)	(12,439)	(2,053)	(246)	**(791,659)**
Transfers to Stage 1	53,915	(49,618)	(4,297)	–	**–**
Transfers to Stage 2	(60,783)	71,134	(10,351)	–	**–**
Transfers to Stage 3	(990)	(49,234)	50,224	–	**–**
Amounts written off	–	–	(51,932)	(39)	**(51,971)**
Foreign exchange and other movements	103,185	10,738	15,538	70	**129,531**
At 31 December 2022	**657,727**	**29,948**	**9,366**	**252**	**697,293**

Urban micro and retail loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**6,716**	**17,032**	**9,484**	**55**	**33,287**
New assets originated or purchased	9,133	–	–	–	**9,133**
Assets repaid	(13,059)	(2,659)	(1,514)	(18)	**(17,250)**
Transfers to Stage 1	21,013	(17,112)	(3,901)	–	**–**
Transfers to Stage 2	(9,639)	18,060	(8,421)	–	**–**
Transfers to Stage 3	(1,132)	(18,106)	19,238	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(5,277)	6,710	32,580	11	**34,024**
Amounts written off	–	–	(51,932)	(39)	**(51,971)**
Foreign exchange and other movements	1,421	2,200	11,253	3	**14,877**
At 31 December 2022	**9,176**	**6,125**	**6,787**	**12**	**22,100**

(Thousands of Georgian Lari)

8. Loans to customers (continued)

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

The movements in the above tables 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 2023 and 2022 is as follows:

2023	*ECL charge, gross of recovery*	*Recovery*	*Credit loss expense in profit or loss*
Urban micro and retail loans	41,208	(8,463)	32,745
Micro agro and tourism micro loans	26,690	(5,581)	21,109
SME and Mortgage loans	4,923	(820)	4,103
	72,821	**(14,864)**	**57,957**

*2022**	*ECL charge,gross of recovery*	*Recovery*	*Credit loss expense in profit or loss*
Urban micro and retial loans	40,784	(10,739)	30,045
Micro agro and tourism micro loans	23,454	(5,215)	18,239
SME and Mortgage loans	2,316	(636)	1,680
	66,554	**(16,590)**	**49,964**

* Comparative information was represented to conform with current period presentation.

Modified and restructured loans

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

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

	2023	*2022*
Loans modified during the period		
Restructured loans as at 31 December	69,394	68,583
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 (cured loans)	32,247	33,160

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 2023 and 2022 collateral does not have any material impact on ECL on Stage 3 loans (collectively assessed).

Note 15 includes information about repossessed collateral.

(Thousands of Georgian Lari)

8. Loans to customers (continued)

Industry and geographical analysis of the loan portfolio

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

	2023	*2022*
Agriculture	783,283	711,850
Service	453,720	370,449
Trade	379,051	334,778
Consumer	92,548	92,992
Manufacturing	76,099	73,167
Transportation	4,758	4,805
Other	235,642	204,518
	2,025,101	**1,792,559**
Less: expected credit losses	(43,530)	(41,845)
Net loans to customers	**1,981,571**	**1,750,714**

9. Investment securities at amortised cost

	2023	*2022*
Debt securities at amortised cost		
Corporate bonds of foreign issuers (AAA rated)	26,136	26,142
Treasury bills of the Ministry of Finance (BB rated)	22,753	22,727
Debt securities at amortised cost	**48,889**	**48,869**

All balances of investment securities are held at amortised cost and are allocated to Stage 1. ECL was not material as at 31 December 2023 and 2022.

As at 31 December 2023, Treasury bills of the Ministry of Finance and Corporate bonds with carrying value of GEL 44,946 (2022: GEL 44,946) were pledged as collateral under loans received from the NBG.

10. Property and equipment

The movements in property and equipment were as follows in 2023:

	Land and buildings (including leasehold improvement)	*Furniture, fixtures and equipment*	*Motor vehicles*	*IT and computer equipment*	*Total*
Cost					
31 December 2022	**5,524**	**18,195**	**4,097**	**17,341**	**45,157**
Additions	2,323	4,056	450	3,608	**10,437**
Disposals	–	(945)	(333)	(649)	**(1,927)**
31 December 2023	**7,847**	**21,306**	**4,214**	**20,300**	**53,667**
Accumulated depreciation					
31 December 2022	**(2,310)**	**(10,551)**	**(2,527)**	**(9,317)**	**(24,705)**
Depreciation charge	(849)	(2,056)	(190)	(1,845)	**(4,940)**
Disposals	–	912	295	618	**1,825**
31 December 2023	**(3,159)**	**(11,695)**	**(2,422)**	**(10,544)**	**(27,820)**
Net book value as at 31 December 2022	**3,214**	**7,644**	**1,570**	**8,024**	**20,452**
Net book value as at 31 December 2023	**4,688**	**9,611**	**1,792**	**9,756**	**25,847**

(Thousands of Georgian Lari)

10. Property and equipment (continued)

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 gross amount of fully depreciated property and equipment that is still in use in 2023 was GEL 16,065 (2022: GEL 16,952).

11. Intangible assets

The movements in intangible assets were as follows in 2023:

	Licenses, rights, patents	*Core banking software*	*Other software*	*Customer relations*	*Total*
Cost					
31 December 2022	**10,861**	**11,279**	**6,573**	**10,094**	**38,807**
Additions	4,462	6,262	162	–	**10,886**
31 December 2023	**15,323**	**17,541**	**6,735**	**10,094**	**49,693**
Accumulated amortization					
31 December 2022	**(5,536)**	**(4,086)**	**(1,870)**	**(6,234)**	**(17,726)**
Amortization charge	(2,265)	(1,549)	(765)	(2,721)	**(7,300)**
31 December 2023	**(7,801)**	**(5,635)**	**(2,635)**	**(8,955)**	**(25,026)**
Net book value as at 31 December 2022	**5,325**	**7,193**	**4,703**	**3,860**	**21,081**
Net book value as at 31 December 2023	**7,522**	**11,906**	**4,100**	**1,139**	**24,667**

(Thousands of Georgian Lari)

11. Intangible assets (continued)

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**

12. Leases

The movements in right−of−use assets in 2023 were as follows:

	Right−of−use assets (offices and other real estate)
31 December 2022	**25,084**
Additions	12,390
Disposals and write−offs	(9,973)
31 December 2023	**27,501**
Accumulated depreciation	
31 December 2022	**(8,883)**
Depreciation charge	(6,800)
Disposals and write−offs	8,242
31 December 2023	**(7,441)**
Net book value	
31 December 2022	**16,201**
31 December 2023	**20,060**

The movement in lease liabilities in 2023 was as follows:

	Lease liabilities
As at 31 December 2022	**16,968**
Additions	12,390
Interest expense	1,634
Payments	(7,945)
Terminations	(1,867)
Foreign exchange effect	87
As at 31 December 2023	**21,267**

(Thousands of Georgian Lari)

12. Leases (continued)

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**

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 Bank recognized rent expense from short−term leases of GEL 762 in 2023 (2022: GEL 527). Total cash outflows for leases amounted to GEL 8,573 (2022: GEL 9,223). The Bank had non−cash additions to right−of−use assets and lease liabilities of GEL 12,390 in 2023 (2022: GEL 14,639). Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognised amounted to GEL 20,194 as at 31 December 2023 (2022: GEL 24,977).

13. Taxation

The corporate income tax expense comprises:

	2023	*2022*
Current year tax charge	6,095	5,831
Deferred taxation charge due to origination and reversal of temporary differences	1,314	2,392
Total income tax expense	**7,409**	**8,223**

The income tax rate applicable to the Bank's income is 20% (2022: 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:

	2023	*2022*
Profit before tax	**48,482**	**53,434**
Statutory tax rate	20%	15%
Theoretical income tax expense at the statutory rate	**9,696**	**8,015**
Non−deductible expenses	902	37
Tax exempt income and change in tax base	(1,399)	(1,073)
Effects from changes in tax legislation	(1,790)	1,244
Income tax expense	**7,409**	**8,223**

(Thousands of Georgian Lari)

13. Taxation (continued)

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 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 are defined as per IFRS, instead of NBG regulations.

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.

As at 31 December 2022, the Bank determined that accumulated temporary differences related to gross carrying value of loans to customers would be taxed at 15% at transition, similarly to the transition rules applicable to temporary differences for ECL. Following a clarification from relevant authorities obtained subsequent to 2022 financial statements release date, the applicable tax rate for such differences was set at 20%, resulting in GEL 1,132 decrease in current tax charge for 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 2023 and 2022.

Deferred tax assets and liabilities as of 31 December 2023 and 2022 and their movements for the respective years comprise:

	31 December 2021	*Recognised in profit or loss*	*31 December 2022*	*Recognised in profit or loss*	*31 December 2023*
Tax effect of deductible temporary differences					
Loan portfolio, except for expected credit losses	1,235	2,524	3,759	(3,551)	208
Salaries payable and other liabilities	(60)	645	585	914	1,499
Lease liabilities	−	2,525	2,525	1,349	3,874
Deferred tax assets	**1,175**	**5,694**	**6,869**	**(1,288)**	**5,581**
Tax effect of taxable temporary differences					
Expected credit losses	(503)	(2,147)	(2,650)	2,650	−
Property and equipment and intangible assets	(1,326)	(2,783)	(4,109)	(1,452)	(5,561)
Loans and borrowings	(741)	(631)	(1,372)	125	(1,247)
Right−of−use assets	−	(2,525)	(2,525)	(1,349)	(3,874)
Deferred tax liabilities	**(2,570)**	**(8,086)**	**(10,656)**	**(26)**	**(10,682)**
Net deferred tax liability	**(1,395)**	**(2,392)**	**(3,787)**	**(1,314)**	**(5,101)**

14. Other financial assets

Other financial assets comprise:

	2023	*2022*
Other financial assets		
Local funds in settlement	12,213	6,950
International money settlements	7,971	6,975
Court costs claims	6,000	5,102
Accrued commission income	1,288	1,271
Receivables from employees	164	310
Less: allowance for impairment of other financial assets	(4,200)	(3,317)
Total other financial assets	**23,436**	**17,291**

(Thousands of Georgian Lari)

14. Other financial assets (continued)

The Bank recognised GEL 1,364 charge on allowance for impairment of other financial assets (2022: GEL 1,752), that were presented in other operating expenses.

Court cost claims represent mostly claims towards the borrowers in respect of litigation costs incurred by the Bank associated with debt collection.

15. Other non−financial assets

Other non−financial assets comprise:

	2023	*2022*
Other non−financial assets		
Repossessed property	13,793	5,714
Prepayments and advances	4,319	3,830
Inventory	1,529	1,451
Prepaid taxes other than income tax	798	551
Total non−financial assets	**20,439**	**11,546**

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

In 2023, the Bank repossessed properties of GEL 8,229 (mostly represented by real estate) in non−cash settlement of loans issued (2022: GEL 1,788). The Bank engages external appraiser to assess the fair values of the repossessed properties on a regular basis to identify the need of write−downs.

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:

	2023	*2022*
Loans with floating interest rate	647,384	623,659
Loans with fixed interest rate	456,691	509,343
Loans from banks and other financial institutions	**1,104,075**	**1,133,002**

As at 31 December 2023 loans from banks and other financial institutions mature from January 2024 to December 2030 (2022: from January 2023 to December 2030), and are denominated in GEL, USD and EUR.

As at 31 December 2023 and 2022, the Bank was in compliance with all externally imposed financial covenants under loans from banks and other financial institutions and subordinated loans.

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

	Currency	*Interest rate*	*Maturity*	*2023*	*2022*
Loan 1	GEL	3M CD +9.02%	December 2025	5,046	5,053
Loan 2	GEL	3M CD + 7.72%	April 2026	6,197	6,229
Loan 3	GEL	3M CD +7.55%	June 2026	4,017	4,033
Loan 4	GEL	13.55%	September 2026	3,351	3,363
Loan 5	GEL	13.55%	September 2026	3,351	3,363
Loan 6	GEL	16.5%	April 2027	6,921	6,953
Loan 7	GEL	16.5%	April 2027	6,921	6,953
Loan 8	GEL	3M TIBR + 7.8%	March 2028	11,654	11,720
Loan 9	GEL	15%	June 2028	3,869	3,881
Loan 10	GEL	15%	June 2028	3,869	3,881
Loan 11	GEL	14.75%	July 2028	3,751	3,763
Loan 12	GEL	14.75%	July 2028	3,751	3,763
Loan 13	USD	6M SOFR + 6.88%	December 2028	12,356	12,216
Loan 14	EUR	5.00%	June 2029	8,893	8,673
Loan 15	USD	9.00%	April 2030	13,892	−
Loan 16	USD	9.63%	June 2030	8,015	−
Loan 17	EUR	9.07%	November 2030	21,382	
Subordinated loans				**127,236**	**83,844**

(Thousands of Georgian Lari)

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

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

Loans 4, 5, 6, 7, 9, 10, 11 and 12 were obtained from non−controlling shareholder of the Bank (Note 31).

17. Changes in liabilities arising from financing activities

	Loans from banks and other financial institutions	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 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**
Proceeds from disbursement	257,997	42,102	**300,099**
Redemption	(295,274)	−	**(295,274)**
Foreign currency translation	6,691	1,053	**7,744**
Other	1,659	237	**1,896**
Carrying amount at 31 December 2023	**1,104,075**	**127,236**	**1,231,311**

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 Bank classifies interest paid as cash flows from operating activities.

Changes in lease liabilities are provided in Note 12.

18. Customer accounts

The amounts due to customers include the following:

	2023	*2022*
Time deposits	526,025	418,506
Current accounts	274,348	182,059
Savings accounts	53,478	44,626
Accounts in course of settlement	70	114
	853,921	**645,305**

19. Other liabilities

	2023	*2022*
Salaries accrued	18,542	15,230
Payables for goods and services	11,983	10,435
Payables to retail partners for consumer lending	8,260	7,714
Funds in settlement	7,261	3,670
Accrued expenses	2,553	1,733
Taxes other than income tax payable	483	190
Grant liabilities	381	−
Other liabilities	1,781	1,251
	51,244	**40,223**

(Thousands of Georgian Lari)

20. Equity

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

As of 31 December 2023, the Bank had authorised, issued and fully paid 521,023 (2022: 518,682) 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 2021	**–**	**517,678**	**–**	**5,177**
Increase in share capital	–	1,004	–	10
31 December 2022	**–**	**518,682**	**–**	**5,187**
Increase in share capital	–	2,341	–	23
31 December 2023	**–**	**521,023**	**–**	**5,210**

In 2023, the Bank satisfied its share−based payment liability to its key management personnel in amount of GEL 1,345 (2022: GEL 480) by transferring 2,341 shares (2022: 1,004 shares) of the Bank with aggregate par value of GEL 23 (2022: GEL 10), previously held in treasury.

As at 31 December 2023, 4,472 (2022: 3,286) shares are held in treasury for the purpose of share−based awards satisfaction.

Dividends

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

No dividend distribution was declared in 2023. 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.

21. Commitments and contingencies

Credit related commitments

In the normal course of business, the Bank 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 Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved credit card limits and loan commitments. These credit cards have fixed limits and generally are extended for a period of up to eight months.

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

The respective undrawn balances are as follow:

	2023	***2022***
Other loan commitments	29,968	24,376
Undrawn limit on credit cards	25,802	20,616
Guarantees	429	306
	56,199	**45,298**

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

(Thousands of Georgian Lari)

21. Commitments and contingencies (continued)

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 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 2022 and 2023 paved the way towards European Union accession, more can be expected as Georgia's action plan for achieving EU membership continues to develop.

War between Russia and Ukraine still continued during 2023, which brought political and economic uncertainty to the whole region and Georgia as both Ukraine and Russia are important trade partners of the country. It was expected that the war would have a significant negative impact on the Georgian economy. However Georgian economy demonstrated robust performance in both 2023 and 2022 and expected adverse impact from Russia's war in Ukraine did not materialise. War−related immigration, a surge in financial inflows and a rebound in investments strengthened Georgian economy. Real GDP growth as per preliminary "Geostat" information reached 7.0% in 2023 (2022: 11.0%). Due to effectively taken fiscal and monetary measures, inflation stabilised during 2023 declining to 0.4% (2022: 9.8%). Consequently the GEL continued to appreciate against USD from December 2022 to December 2023 by 0.5% (2022: 12.8%).

With the reduction in the inflation rate and the positive economic outlook for 2024, the NBG started reducing the refinance rate, decreasing it from a 11% at 2022-end to 9.5% at 2023-end.

Additionally, Georgia achieved EU candidacy status in 2023, which increased consumer and business confidence and encouraged international investments in Georgia, further stabilising the GEL/USD exchange rate and supporting the economic growth.

Further economic recovery is expected in 2024, 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 the economic growth trend and approved strategic plans, by further expansion in the target market.

Legal

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

Taxation

Tax legislation in Georgia is subject to varying interpretations and changes can occur frequently. These circumstances may create tax risks in Georgia that are more significant than in other developed economics. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements, and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. In 2023, the Bank was assessed by the Revenue Service for the fiscal period of 2020 – 2022. The Bank updated respective tax returns, minimising the risk of further tax−related assessments for respective periods.

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 2023 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax positions will be sustained.

Insurance

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

(Thousands of Georgian Lari)

22. Fee and commission income

Fee and commission income comprises:

	2023	*2022*
Fees from credit related activities	27,050	29,717
Fees from settlement and cash operations	10,752	7,032
Fees from client accounts	6,054	5,621
Other	7,668	5,535
	51,524	**47,905**

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

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

	2023	*2022*
Deferred commission income (presented within other liabilities)	1,384	1,028
Accrued income receivable (presented within other financial assets)	1,288	1,271

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:

	2023	*2022*
Fees from settlement and cash operations	14,234	8,635
Fees from credit related activities	8,313	7,604
Other	116	110
	22,663	**16,349**

24. Net losses from foreign currencies

Net losses from foreign currencies comprises:

	2023	*2022*
Translation differences	(2,938)	8,840
Dealing	6,210	5,908
Net result from foreign currency derivatives	(11,917)	(17,964)
	(8,645)	**(3,216)**

Net result from foreign currency derivatives includes GEL 15,321 interest expense element related to swaps represented by amortisation of forward points (difference between the contractual forward and spot rates) (2022: 8,240).

Net gain from foreign currencies exchange without swap and forwards interest expense elements for 2023 was GEL 6,676 (2022: GEL 5,024).

(Thousands of Georgian Lari)

25. Other operating income

Other operating income comprises:

	2023	*2022*
Gain from sale of repossessed property	267	2
Income from grants	136	1,306
Reversal of the provision for repossessed property	−	384
Other	233	787
	636	**2,479**

The Bank receives grants from various organization to fund certain operating costs. Grants received are originally recognized within liabilities and recycled to other income when respective expenses the grant aimed to compensate are incurred.

26. Other operating expenses

Other operating expenses:

	2023	*2022*
Court expenses	1,364	1,752
Expenses for disposal of property, plant and equipment	−	1
Other operating expense	331	294
	1,695	**2,047**

Court expenses represent mostly litigation costs associated with debt collection.

27. Personnel expenses

Personnel expenses comprise:

	2023	*2022*
Salary expenses	103,577	84,929
Other personnel expenses	13,003	12,221
	116,580	**97,150**

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

The average number of Bank's full−time employees during 2023 and 2022 was:

Category	*2023*	*2022*
Directors	6	6
Management	164	156
Professional staff	3,495	3,044
Total	**3,665**	**3,206**

In addition to stated above, on average 2,140 employees were employed under temporary service contracts in 2023 (2022: 2,869).

(Thousands of Georgian Lari)

28. Other general administrative expenses

	2023	*2022*
Transport and travel expenses	5,070	7,168
Software expenses	4,014	3,693
Legal and advisory expenses	3,373	2,754
Communication expenses	2,912	2,871
Supplies and other consumables	2,858	2,937
Marketing, advertising and entertainment	2,640	3,392
Rent and utilities	2,597	2,212
Repair and maintenance	1,819	1,475
Operating taxes	1,696	1,402
Training	712	864
Insurance expenses	709	900
Security service expenses	356	317
Other	2,210	1,994
	30,966	**31,979**

Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Bank's auditor for the years ended 31 December 2023 and 2022 comprises:

	2023	*2022*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	229	220
Expenditures for other professional services	22	5
	251	**225**

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 266 (2022: GEL 289).

29. Risk management

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

Risk Management is organised on the basis of three-lines of defence comprising:

- First line: Control and management of origination of risk, with responsibility for each risk assigned to specific structural units involved in the origination of risk.
- Second line: Compliance and Risk Management oversight by centralised units including credit risk management, operational risk management, financial risk management, internal control function and compliance.
- Third line: Audit of Controls and Risk Management done by Internal Audit and supported by External Audits.

General Assembly of Shareholders

The General Assembly of Shareholders has responsibility for the oversight of the risk appetite of the institution, by defining the mission, strategy, objectives, business activities and priorities of the Bank.

Supervisory Board and Management Board

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

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

(Thousands of Georgian Lari)

29. Risk management (continued)

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 is responsible for making primary risk decisions, as well for establishment of risk policies and limits. The policies developed by ALCO are approved by the Supervisory Board.

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

Risk Management Function

- **Credit Risk Unit** is responsible for quality targets of the Bank's credit activities and for the independent loan review and approval. The Credit Risk Unit ensures critical review of loan applications and is responsible for the identification and analysis of credit risks.
- **Financial and Market Risk** is responsible for ongoing analysis and regular assessment of risks, reporting on financial and nonfinancial risks and their comparison with strategic objectives and risk profile. It covers market risk, liquidity risk, portfolio risk and capital planning.
- **The Operational Risk** is responsible for defining and monitoring operational risk appetite and KRIs, classification of operational risk types, business process identification and mapping, operational risk assessment tools and methods, reporting and mitigation.
- **Compliance Function** is responsible for: AML compliance, NBG regulations, tax and legal compliance functions. Compliance functions ensure effective and routine monitoring of compliance with laws, regulations, codes and policies to which the Bank is subject to.
- **Internal Control** is responsible for ensuring the Policy and Procedures discipline through systemic and regular methodologies, control presence across the Branches and the HQ, through scheduled missions, risk-based sampling and unexpected supervision of controls through continuous analytical procedures based on Data Science and Smart Dashboard Controls; Fraud Management – monitoring, detection and investigation through dedicated analytical procedures.

Internal audit

Risk management processes throughout the Bank are audited by the internal audit function that examines both the adequacy of the procedures and Bank's compliance with the procedures. Internal Audit reports directly its findings and recommendations to the Audit Committee. The work of Internal Audit is supported by engaging external consultants for auditing of specific processes and controls, where highly specialised skills may be required, such as in IT, payment and settlement channels and Information Security.

Credit risk

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

Credit risk is monitored by credit and risk departments. There are several levels of approval based on loan amount and total exposure to client.

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

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 Bank's credit committee of appropriate level, depending on the amount and product of the loan and total exposure to the client. The Bank has several levels of credit committees, starting from the credit committee of a service centre 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.).

In case the loans are disbursed through internet and mobile banking channels, where applicable, accuracy and correctness of client related information is collected and verified by credit back office unit. Eventually, the loan is approved by credit scoring system, where applicable according to the credit decision-making matrix.

Assessment of the applicant's creditworthiness through monitoring of its business, and in case of online loans, verification of client information by credit back office helps to minimise the potential financial losses.. Monitoring is performed by respective credit staff 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 Bank calculates ECL. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

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

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

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

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

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

Definition of default

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

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

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

PD estimation process

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

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

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

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

Incorporation of forward−looking information

The Bank 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 Bank has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data and has assessed the 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 five-years. Macroeconomic factors regularly published by the NBG are applied. Based on this analysis, the Bank has identified portfolio default correlation with real growth rate of GDP of Georgia.

Key drivers	***2024***	***2025***	***2026***
GDP growth, %			
Upside (25% weight)	6.5%	5.5%	5.0%
Base case (50% weight)	5.0%	4.5%	5.0%
Downside (25% weight)	3.0%	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, including assessing both the client's ability to increase its exposure while approaching default and the potential of early repayments. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

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

The Bank segments loans to customers into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, maturity terms) as well as borrower characteristics.

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

Significant increase in credit risk

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

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

(Thousands of Georgian Lari)

29. Risk management (continued)

Credit risk (continued)

The Bank may also identify significant increase in credit risk following loan modification. Modifications caused by borrower's financial difficulties and credibility result in significant increase in credit risk. Other modifications performed for commercial reasons (including also partial prepayments or payment date reallocation) do not normally result in significant increase in credit risk.

Credit quality of loans to customers

The following table provide information on the credit quality of loans to customers as at 31 December 2023:

Loans to customers	*Total gross carrying value 31 December 2023*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*
Not overdue	**1,932,525**	1,924,945	5,768	1,643	169
1 to 30 days overdue	**6,950**	6,288	566	93	3
31 to 60 days overdue	**5,016**	–	4,773	243	–
61 to 90 days overdue	**2,764**	–	2,455	309	–
Restructured loans overdue less than 90 days (R1)	**64,744**	–	60,555	4,170	19
Loans overdue more than 90 days; defaulted loans	**8,452**	–	–	8,452	–
Restructured loans overdue more than 90 days (R2)	**4,650**	–	–	4,650	–
Total loans to customers	**2,025,101**	**1,931,233**	**74,117**	**19,560**	**191**

The Bank 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 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	128	12
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**	**16,914**	**603**

Financial risk

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

These risks are controlled and managed on an ongoing basis.

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

(Thousands of Georgian Lari)

29. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, these include long−term funds 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. A short−term liquidity plan is developed at the beginning of every month. The plan includes weekly liquidity planning for the following month and detailed planning for the next two months, along with projections for the following twelve months that are prepared on a monthly basis.

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

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

In addition, the Bank's Treasury department monitors liquidity position on a 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.

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

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios 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 2023 and 2022 the ratios were as follows:

	2023	***2022***
LK "Liquidity Coverage Ratio" in FC (hold high−quality liquid assets / Total net cash outflow)	190%	252%
LK "Liquidity Coverage Ratio" in NC (hold high−quality liquid assets / Total net cash outflow)	142%	190%
Total LK "Liquidity Coverage Ratio" (hold high−quality liquid assets / Total net cash outflow)	166%	224%

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

The Bank is also subject to the minimum requirement for Net Stable Financing Ratio (NSFR) introduced by the NBG for commercial banks in Georgia, which should be at least 100%. As of 31 December 2023, the Bank's NSFR was 117% (2022: 126%).

(Thousands of Georgian Lari)

29. Risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's financial assets and liabilities as of 31 December 2023 based on contractual undiscounted inflows and obligations:

	On demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year and less than 5 years*	*More than 5 years*	*Total gross inflow/ outflow*
Cash and cash equivalents	273,068	–	–		**273,068**
Amounts due from credit institutions	–	47,938	–	–	**47,938**
Gross−settled derivatives financial instruments	238,025	–	–	–	**238,025**
Loans to customers	112,680	1,012,773	1,238,923	323,003	**2,687,379**
Investment securities	89	30,429	25,343	–	**55,861**
Other financial assets	18,708	3,082	1,411	235	**23,436**
Total financial assets	**642,570**	**1,094,222**	**1,265,677**	**323,238**	**3,325,707**
Loans from banks and other financial institutions	59,300	527,873	705,174	3,539	**1,295,886**
Gross−settled derivative financial instruments	236,920	–	–	–	**236,920**
Customer accounts	382,515	416,638	83,075	441	**882,669**
Other payables	39,062	9,536	–	–	**48,598**
Lease liabilities	717	7,690	17,904	–	**26,311**
Subordinated debt	1,624	15,023	122,766	52,773	**192,186**
Total financial liabilities	**720,138**	**976,760**	**928,919**	**56,753**	**2,682,570**
Financial irrevocable commitments and contingencies	26,231	–	–	–	**26,231**
Maturity gap	**(103,799)**	**117,462**	**336,758**	**266,485**	**616,906**
Reclassification of stable part of current and savings accounts	(208,557)	32,299	176,258	–	**–**
Maturity gap considering stable funding	**104,758**	**85,163**	**160,500**	**266,485**	**616,906**

As of December 2023, the Bank had a negative maturity gap, which is related to current and savings accounts concentration in the "On demand and less then 1 month" bucket based on their contractual repayment terms. The actual behavior of these sources is different and the Bank uses maturity gap adjusted for stable funding for liquidity risk management purposes. Despite substantial portion of current and savings accounts being contractually on demand, diversification of these deposits by number and type of depositors, and the historical experience of the Bank would indicate that these customer accounts provide a long−term and stable source of funding for the Bank. The Bank's maturity gap considering stable funding includes estimated, rather than contractual, maturities for its current and savings accounts. Stable funding estimate as at 31 December 2023 is based on the outflow rate assumptions (developed using significant management's judgment) for various categories of customer categories based on deposit currency, concentration (share of the category in total deposit portfolio), customer type and other relevant factors. As at 31 December 2022, the Bank had not yet accumulated sufficient information to estimate the amount of stable funding.

The table below summarises the maturity profile of the Bank's financial assets and liabilities as of 31 December 2022 based on contractual undiscounted obligations:

	On demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year and less than 5 years*	*More than 5 years*	*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	1,081,605	233,106	**2,340,084**
Investment securities	89	3,533	36,924	20,752	**61,298**
Other financial assets	12,774	3,443	921	153	**17,291**
Total financial assets	**559,591**	**956,881**	**1,119,450**	**254,011**	**2,889,933**
Loans from banks and other financial institutions	58,751	369,434	917,889	21,962	**1,368,036**
Gross−settled derivative financial instruments	171,045	–	–	–	**171,045**
Customer accounts	257,936	374,436	38,217	423	**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	78,458	47,433	**138,015**
Total financial liabilities	**520,203**	**769,371**	**1,047,886**	**69,818**	**2,407,278**
Financial irrevocable commitments and contingencies	24,682	–	–	–	**24,682**
Maturity gap	**14,706**	**187,510**	**71,564**	**184,193**	**457,973**

(Thousands of Georgian Lari)

29. Risk management (continued)

Currency risk

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

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

	2023			*2022*		
	USD	***EUR***	***Other FC***	***USD***	***EUR***	***Other FC***
Cash and cash equivalents	47,991	70,974	598	81,653	62,092	168
Amounts due from credit institutions	21,998	25,940	–	20,096	9,943	–
Loans to customers	111,249	96,184	–	86,049	102,819	–
Other monetary assets	4,409	2,244	13	5,061	973	18
Total assets	**185,647**	**195,342**	**611**	**192,859**	**175,827**	**186**
Loans and borrowings	(57,987)	(264,867)	–	(61,796)	(251,794)	–
Customer accounts	(212,100)	(60,260)	(547)	(179,547)	(35,149)	(194)
Lease liabilities	(7,130)	–	–	(7,523)	–	–
Other monetary liabilities	(4,334)	(2,529)	(5)	(3,895)	(640)	(7)
Total liabilities	**(281,551)**	**(327,656)**	**(552)**	**(252,761)**	**(287,583)**	**(201)**
The effect of derivatives held for risk management	93,379	133,293	–	59,444	111,915	–
Net position after derivatives held for risk management purposes	**(2,525)**	**979**	**59**	**(458)**	**159**	**(15)**

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the foreign currency at 31 December 2023 and 2022 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2023	***2022***
20% appreciation of foreign currency against GEL	(297)	(63)
20% depreciation of foreign currency against GEL	297	63

Interest rate risk

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

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial liabilities held at 31 December:

Currency	***Sensitivity of net interest income 2023***	***Sensitivity of net interest income 2022***
GEL (+1%/ −1%)	5,866 / (5,866)	5,701 / (5,701)
USD (+1/−1%)	123 / (123)	137 / (137)

(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 2023, allocated based on the earliest of their contractual repayment or repricing date:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year and less than 5 years*	*More than 5 years*	*Carrying amount*
Cash and cash equivalents	273,068	–		–	**273,068**
Amounts due from credit institutions	–	47,938	–	–	**47,938**
Loans and advances to customers	200,367	1,320,274	377,304	83,626	**1,981,571**
Investment securities	955	28,988	18,946	–	**48,889**
Total interest−bearing assets	**474,390**	**1,397,200**	**396,250**	**83,626**	**2,351,466**
Loans from banks and other financial institutions, including subordinated debt	204,924	553,123	422,324	50,940	**1,231,311**
Customer accounts	392,102	386,833	74,632	354	**853,921**
Lease liabilities	504	5,680	15,083	–	**21,267**
Total interest−bearing liabilities	**597,530**	**945,636**	**512,039**	**51,294**	**2,106,499**
Interest rate maturity gap	**(123,140)**	**451,564**	**(115,789)**	**32,332**	**244,967**

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 and less than 5 years*	*More than 5 years*	*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	421,346	75,906	**1,750,714**
Investment securities	960	–	28,963	18,946	**48,869**
Total interest−bearing assets	**436,012**	**1,117,223**	**450,309**	**94,852**	**2,098,396**
Loans from banks and other financial institutions, including subordinated debt	172,321	643,935	358,174	42,416	**1,216,846**
Customer accounts	264,878	344,836	35,250	341	**645,305**
Lease liabilities	501	5,135	11,332	–	**16,968**
Total interest−bearing liabilities	**437,700**	**993,906**	**404,756**	**42,757**	**1,879,119**
Interest rate maturity gap	**(1,688)**	**123,317**	**45,553**	**52,095**	**219,277**

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 2023 and 2022 is as follows:

	2023	*2022*
	Profit (loss)	*Profit (loss)*
100 bp parallel fall	(3,284)	(1,216)
100 bp parallel rise	3,284	1,216

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

30. Fair value measurements

Fair value measurement procedures

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

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

As at 31 December 2023 and 2022, the Bank does not have any financial instruments measured at fair value, for which fair value is based on valuation techniques involving the use of significant non−observable inputs.

Fair value hierarchy

The tables below analyses financial instruments value at 31 December 2023 and 31 December 2022, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Fair value measurement using			
At 31 December 2023	***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	1,688	−	**1,688**	**1,688**
Assets for which fair values are disclosed				
Amounts due from credit institutions	47,938	−	**47,938**	**47,938**
Loans to customers	−	1,971,140	**1,971,140**	**1,981,571**
Investment securities	48,889	−	**48,889**	**48,889**
Liabilities for which fair values are disclosed				
Loans from banks and other financial institutions, including subordinated debt	1,224,624	−	**1,224,624**	**1,231,311**
Customer accounts	828,802	−	**828,802**	**853,921**
Lease liabilities	21,267	−	**21,267**	**21,267**

(Thousands of Georgian Lari)

30. Fair value measurements (continued)

Fair value hierarchy (continued)

At 31 December 2022	*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	1,011	−	**1,011**	**1,011**
Assets for which fair values are disclosed				
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**

Valuation techniques and assumptions

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

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short−term maturity (less than three months), as well as for floating rate instruments, the carrying amounts are assumed to approximate their fair value.

Derivatives

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

Fixed rate financial instruments

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

(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.

	2023		*2022*	
	Transaction value	*Balance*	*Transaction value*	*Balance*
Statement of financial position				
Assets				
Loans to customers	−	195	−	2
Liabilities				
Loans from banks and other financial institutions except subordinated	−	125,110	−	125,485
Subordinated debt	−	35,920	−	35,920
Customer accounts	−	3,263	−	1,810
Profit or loss				
Loans to customers − Interest Income	1	−	−	−
Loans from banks and other financial institutions except subordinated − interest expense	12,968	−	13,728	−
Subordinated debt − interest expense	5,367	−	5,323	−
Customer account−interest expense	70	−	34	−
Other general and administrative expense	1,044	−	1,205	−

Loans from banks and other financial institutions, subordinated debt and their related interest expense represent transactions with shareholders with significant influence over the Bank. In addition, other general and administrative expenses represent consultation service fees provided by the controlling shareholder. As at 31 December 2023 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 and loans are attributed to the members of key management personnel and Supervisory Board Members.

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%.

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:

	2023	*2022*
Members of the Management Board	7,646	4,409

In 2023 the Bank granted cash−settled share−based awards to the members of the Management Board. Share−based payment expense for 2023 was GEL 2,216 (2022: GEL 861) and associated liability as at 31 December 2023 amounted to GEL 1,345 (2022: GEL 700).

32. Capital adequacy

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

As at 31 December 2023 and 2022, the Bank complied with all its externally imposed capital requirements.

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

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

(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 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.

From 1 January 2023, Georgian banking sector has transmitted to International Financial Reporting Standards (IFRS) for regulatory reporting purposes. The capital adequacy framework has been amended to include credit risk adjustment (CRA) buffer and a procedure for its calculation were added to the Regulation on Determining Capital Buffers for Commercial Banks within Pillar 2. The purpose of establishing a credit risk adjustment buffer is to reduce the credit risk caused by insufficient expected credit losses set up for assets, and to determine an adequate capital buffer.

As of 31 December 2023, under total Basel II/III requirements the Bank was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 15.30%, 10.43% and 12.52%, respectively (2022: 13.62%, 8.44%, 10.42%).

The Bank was in compliance with these capital adequacy ratios as of 31 December 2023 and 2022. The Bank's capital adequacy ratios on this basis were as follows:

	2023	***2022****
Common Equity Tier 1 capital	282,252	214,666
Additional Tier 1 capital	–	–
Tier 1 capital	**282,252**	**214,666**
Tier 2 capital	94,581	87,523
Total regulatory capital	**376,833**	**302,189**
Risk weighted assets	**2,144,984**	**1,997,563**
Common Equity Tier 1 capital ratio	13.16%	10.75%
Total Tier 1 capital adequacy ratio	13.16%	10.75%
Regulatory capital ratio	17.57%	15.13%

* *The 2023 and 2022 capital adequacy numbers are not comparable as 2023 figures are calculated under IFRS, while 2022 was calculated under the NBG statutory requirements.*

33. Events after reporting period

Subsequent to the year end, no events occurred that requires disclosure in the financial statements or adjustments to the reported figures.