JSC Credo Bank

Consolidated financial statements

Year ended 31 December 2021
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
JSC Credo Bank

Opinion

We have audited the consolidated financial statements of JSC Credo Bank and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Other information included in Group's 2021 Management Report

Other information consists of the information included in Group's 2021 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 Management Report is expected to be available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

5 May 2022

Consolidated statement of financial position

As at 31 December 2021

(Thousands of Georgian Lari)

	Note	2021	2020
Assets			
Cash and cash equivalents	6	185,108	165,631
Amounts due from credit institutions	7	19,144	50,351
Derivative financial assets	8	1,893	2,944
Loans to customers	9	1,432,151	1,036,426
Investment securities at amortised cost	10	53,105	43,512
Current income tax asset	14	–	2,397
Right-of-use assets	13	7,782	9,418
Property and equipment	11	15,829	10,638
Intangible assets	12	20,320	10,377
Other financial assets	15	10,124	9,525
Other non-financial assets	16	9,472	9,105
Total assets		**1,754,928**	**1,350,324**
Liabilities			
Derivative financial liabilities	8	–	422
Customer accounts	19	429,992	154,083
Current income tax liabilities	14	923	–
Lease liabilities	13	8,924	11,125
Loans from banks and other financial institutions	17, 18	986,977	956,102
Deferred income tax liabilities	14	1,395	1,137
Other liabilities	20	25,652	27,904
Subordinated debt	17, 18	76,754	35,913
Total liabilities		**1,530,617**	**1,186,686**
Equity			
Share capital	21	5,177	4,400
Additional paid-in capital		35,305	–
Retained earnings		183,829	159,238
Total equity		**224,311**	**163,638**
Total liabilities and equity		**1,754,928**	**1,350,324**

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

Erekle Zatiashvili

Chief Financial Officer and on behalf of Chief Executive Officer

5 May 2022

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2021

(Thousands of Georgian Lari)

	Note	2021	2020
Interest income calculated using effective interest method			
Loans to customers		324,012	224,248
Cash and balances with banks		5,965	2,196
Investment securities		4,659	3,126
		334,636	**229,570**
Interest expense			
Loans from banks and other financial institutions		(114,654)	(92,748)
Customer accounts		(20,208)	(5,129)
Subordinated debt		(8,551)	(4,950)
Lease liabilities		(1,101)	(1,145)
		(144,514)	**(103,972)**
Net interest income		**190,122**	**125,598**
Credit loss expense on loans to customers	9	(57,083)	(35,952)
Net interest income after credit loss expense		**133,039**	**89,646**
Fee and commission income	23	38,797	26,610
Fee and commission expense	24	(10,660)	(6,695)
Net fee and commission income		**28,137**	**19,915**
Net losses from foreign currencies	25	(2,718)	(2,694)
Bargain purchase gain	5	10,051	–
Other operating income	26	1,388	463
Other operating expense	27	(1,952)	(284)
Net non-interest income		**34,906**	**17,400**
Personnel expenses	28	(80,268)	(62,961)
Other general administrative expenses	29	(29,813)	(20,644)
Depreciation and amortization	11, 12, 13	(16,272)	(11,108)
Non-interest expenses		**(126,353)**	**(94,713)**
Profit before income tax expense		**41,592**	**12,333**
Income tax expense	14	(4,882)	(1,475)
Profit for the year		**36,710**	**10,858**
Other comprehensive loss not to be reclassified to profit or loss in subsequent period − fair value changes on financial liabilities designated at fair value through profit or loss due to the Bank's own credit risk		–	92
Total comprehensive income for the year		**36,710**	**10,950**

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Fair value reserves*	*Total equity*
1 January 2020	**4,400**	**–**	**148,380**	**(92)**	**152,688**
Profit for the year	–	–	10,858	–	**10,858**
Other comprehensive loss for the year	–	–	–	92	**92**
Total comprehensive income for the year	**–**	**–**	**10,858**	**92**	**10,950**
31 December 2020	**4,400**	**–**	**159,238**	**–**	**163,638**
Profit for the year	–	–	36,710	–	**36,710**
Total comprehensive income for the year	**–**	**–**	**36,710**	**–**	**36,710**
Share capital increase (Note 21)	777	35,305	–	–	**36,082**
Dividends declared (Note 21)	–	–	(12,119)	–	**(12,119)**
31 December 2021	**5,177**	**35,305**	**183,829**	**–**	**224,311**

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

(Thousands of Georgian Lari)

	Note	2021	2020
Cash flows from operating activities			
Interest received		340,102	225,122
Interest paid		(139,239)	(99,602)
Fees and commissions received		38,308	26,983
Fees and commissions paid		(10,660)	(6,694)
Realised (losses)/gains from dealing in foreign currencies and related derivatives		4,515)	3,556
Other income received		908	841
Other expense paid		(1,952)	(532)
Personnel expenses paid		(78,196)	(61,213)
Other operating expenses paid		(35,280)	(18,627)
Cash flows from operating activities before changes in operating assets and liabilities		**109,476**	**69,834**
Net (increase)/decrease in operating assets and liabilities			
Amounts due from credit institutions		35,466	(20,895)
Loans to customers		(257,920)	(213,059)
Other assets		3,072	(2,922)
Net increase/(decrease) in operating liabilities			
Customer accounts		99,046	54,062
Other financial liabilities		(82)	893
Net cash flows used in operating activities before income tax		**(10,942)**	**(112,087)**
Income tax paid		(1,332)	(9,690)
Net cash used in operating activities		**(12,274)**	**(121,777)**
Cash flows used in investing activities			
Purchase of property, equipment and intangible assets		(13,803)	(8,093)
Acquisition of investment securities		–	(13,904)
Proceeds from investments securities		17,803	–
Acquisition of subsidiary, net of cash acquired	5	(17,774)	–
Proceeds from sale of property and equipment		161	27
Net cash used in investing activities		**(13,613)**	**(21,970)**
Cash flows from financing activities			
Proceeds from issue of share capital	21	36,082	–
Proceeds from borrowings and subordinated loans	18	447,155	471,756
Repayment of borrowings and subordinated loans	18	(413,362)	(237,900)
Repayment of lease liabilities	13	(6,774)	(5,326)
Dividends paid	21	(12,119)	–
Net cash from financing activities		**50,982**	**228,530**
Net increase in cash and cash equivalents		**25,095**	**84,783**
Effect of exchange rates changes on cash and cash equivalents		(5,618)	3,907
Cash and cash equivalents, beginning	6	165,631	76,941
Cash and cash equivalents, ending	6	**185,108**	**165,631**

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal activities

Organization and operations

JSC Credo Bank (the "Bank") is a Georgian commercial bank, holding a full banking license form the National Bank of Georgia (the "NBG"). On 7 July 2021 the Bank acquired JSC FINCA Bank Georgia (Note 5). JSC FINCA Bank Georgia operated as a separate entity for three months after acquisition until its merger with the Bank in October 2021. Accordingly, these financial statements represent the consolidated statements of the Bank and the merged JSC FINCA Bank Georgia, referred together as the Group.

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

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

	Ownership %	
Shareholder	***2021***	***2020***
Access Microfinance Holding AG	51.17%	60.20%
Triodos SICAV II (Triodos Microfinance Fund)	8.41%	9.90%
Legal Owner Triodos Funds B.V.	8.41%	9.90%
responsAbility Participations AG	7.94%	9.34%
responsAbility SICAV (Lux) – (Micro and SME Finance Leaders)	1.59%	1.87%
responsAbility Global Micro and SME Finance Fund	7.47%	8.79%
Société de Promotion et de Participation pour la Coopération Economique (Proparco)	14.96%	–
Management Board	0.05%	–

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

As at 31 December 2020 and 2021 the Group's parent and ultimate controlling party with 51.17% (2020: 60.20%) of the voting rights is Joint Stock Company Access Microfinance Holding AG, Germany.

On 26 June 2021 Société de Promotion et de Participation pour la Coopération Economique (the French Development Finance Institution) (Proparco) became a new shareholder of the Bank (Note 21).

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

Business environment

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

Effect of COVID-19 pandemic

Following the rapid spread of the COVID-19 pandemic in 2020, which continued in 2021, many governments, including the Georgian Government, introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of businesses and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as the scale of business activity. It is expected that the pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

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

(Thousands of Georgian Lari)

1. Principal activities (continued)

Effect of COVID-19 pandemic (continued)

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

To the extent that information is available as at 31 December 2021, the Group has reflected revised estimates of expected future cash flows in its expected credit loss (ECL) assessment (Note 30).

2. Basis of preparation

General

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

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

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

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Interest Rate Benchmark Reform – Phase 2 − Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

More details about the impact of the reform on the Group are provided in Note 30.

COVID-19-Related Rent Concessions beyond 30 June 2021 − Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Business combinations

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

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

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

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

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

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

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- ► Amortised cost;
- ► FVOCI;
- ► FVPL.

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

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

The SPPI test

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

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

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

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

Undrawn loan commitments

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

Reclassification of financial assets and liabilities

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

Cash and cash equivalents

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

Mandatory reserve deposit with the NBG

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Renegotiated loans

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

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Write-off

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

Financial liabilities

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

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

Derivative financial instruments

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derivative financial instruments (continued)

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

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

Offsetting of financial instruments

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

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

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

Borrowings and amounts due to customers

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Borrowings are included in Loans from banks and other financial institutions and Subordinated loans and represent amounts due to the local banks, foreign financial institutions and international financial institutions. After initial recognition, borrowings and amounts due to customers are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings and amounts due to customers are derecognised as well as through the amortization process.

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

Leases

Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Leases (continued)

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

Short-term leases and leases of low value assets

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

Taxation

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

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the asset and liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

Property and equipment

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

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

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

	Years
Buildings	20
Leasehold improvements (or lease term if earlier)	2
Furniture, fixtures and equipment	2-5
IT and computer equipment	5
Motor vehicles	10

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

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

Intangible assets

Intangible assets include customer relations (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.

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Intangible assets (continued)

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 amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 2 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

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

Share capital

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

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Foreign currency translation

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

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

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

The official NBG exchange rates at 31 December 2021 and 31 December 2020 were GEL 3.0976 and GEL 3.2766 to USD 1, respectively.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

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

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

(Thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

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

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

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

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

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

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

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

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

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

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

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

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

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates

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

Judgments

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. At inception of the lease, the Group usually does not recognise lease liability for the portion of lease payments subject to termination option in periods over 3-5 years (depending on the nature of the underlying assets), which represents a significant judgment. Refer to Note 13.

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Please refer to Note 31.

Impairment losses on financial assets

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

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

As at 31 December 2021, the Group introduced certain changes in its process of estimation of expected credit losses:

- The linear regression model was replaced by Vasicek model for the purpose of estimation of the forward-looking macro adjustment to point in time PD, due to better statistical predictive power of the Vasicek model;
- Contamination principle was introduced for the purpose of determination of both SICR and default, by which all exposures of a specific borrower are allocated to the lowest stage available for such a borrower as at the reporting date;
- Cure period was introduced for transition of restructured exposures after six months of more than minor consecutive payments in accordance with the revised payment schedule from lifetime to 12-month ECL category;
- Post-model adjustments and additional sectoral overlays based on stressed parameters (linked, based on the management's professional judgment, to the borrower's payment-to-income (PTI) ratio) to reflect appropriately the uncertainty associated with the continued effect of COVID-19 pandemic and resulting in stage downgrade for certain borrowers operating in construction and repairs and restaurants and cafes sectors which did not comply with those PTI thresholds determined by the management.

The cumulative amount of model revision, post-model and overlay adjustments to account for the effect of the pandemic, recognised as credit loss expense in 2021 profit or loss was GEL 22,657.

Based on the considerations outlined above, the management considers that the ongoing effect of COVID-19 crisis have been property reflected in the Group's ECL estimate as at 31 December 2021. Further information on ECL and credit quality is provided in Notes 9 and 30.

(Thousands of Georgian Lari)

5. Business combination

Acquisition of FINCA Bank Georgia JSC

On 7 July 2021, the Bank acquired 100% of the voting shares of FINCA Bank Georgia JSC ("Finca"), following the approvals given by the NBG. The transaction is in line with the Bank's mission to provide sustainable financial services for micro, small and medium entrepreneurs and creates a considerable opportunity for achieving synergy effect. Like the Bank, Finca is focused on delivering impactful financial services.

The fair value of the identifiable assets and liabilities acquired and bargain purchase gain arising as at the date of acquisition was:

	Note	*Fair value recognised on acquisition*
Assets		
Cash and cash equivalents		26,226
Amounts due from credit institutions		7,663
Loans to customers	9	213,751
Investment securities		27,405
Right-of-use assets		4,253
Property and equipment	11	2,923
Intangible assets	12	8,487
Other financial assets		1,008
Other non-financial assets		1,225
Total assets		**292,941**
Liabilities		
Derivative financial liabilities		987
Customer accounts		177,240
Loans from banks and other financial institutions	18	40,638
Lease liability	13	4,760
Deferred income tax liabilities	14	27
Other liabilities		781
Subordinated debt	18	14,457
Total liabilities		**238,890**
Total identifiable net assets		**54,051**
Bargain purchase gain		10,051
Purchase consideration transferred		**44,000**

The Group considers bargain purchase gain to be appropriately recognised and corresponding to level of net asset discount commonly observed in the banking industry acquisitions over the Group's region of operations.

The gross contractual amount of loans to customers was GEL 225,425. The best estimate at the acquisition date of the contractual cash flows from loans to customers not expected to be collected was GEL 12,865.

On 18 October 2021, Finca was merged with the Bank. From the date of acquisition to the date of merger, Finca has contributed GEL 17,123 of interest revenue, GEL 1,914 of non-interest income and GEL 634 to the net loss before tax of the Group.

Cash outflow on acquisition of the subsidiary

Net cash acquired with the subsidiary (included in cash flows from investing activities)	26,226
Cash paid (included in cash flows from investing activities)	(44,000)
Net cash outflow	**(17,774)**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	*2020*
Cash on hand and in ATMs	92,017	49,935
Current accounts with the NBG	40,653	24,508
Current accounts with other credit institutions	52,438	91,188
Cash and cash equivalents	**185,108**	**165,631**

As at 31 December 2021, all cash and cash equivalents relate to stage 1 of ECL assessment. ECLs are not material. Most of current accounts are placed with BB- rated banks as at 31 December 2021 and 2020. As at 31 December 2021, current accounts and time deposits with credit institutions denominated in USD and GEL represent 55% and 45% of total current and time deposits, respectively (31 December 2020: USD 31% and 47%, respectively).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2021	*2020*
Obligatory reserve with the NBG	19,144	50,351
Amounts due from credit institutions	**19,144**	**50,351**

In 2021, the obligatory reserve percentages applied to certain categories of the Group's liabilities were revised downwards resulting in decrease in the amount of corresponding obligatory reserve asset. The Group is required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5% to 25% (2020: 5% to 25%) of the average of funds attracted from customers and non-resident financial institutions for the appropriate two-week period in GEL and foreign currencies. The Group earns −0.25% (USD) and 10.50% (GEL) on these deposits (2020: -0.25% (USD) and 8% (GEL)).

8. Derivative financial instruments

The Group enters into derivative financial instruments to mitigate currency risk (Note 30). The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2021			*2020*		
	Notional amount	*Fair values*		***Notional amount***	*Fair value*	
		Asset	***Liability***		***Asset***	***Liability***
Foreign currency contracts						
Cross-currency swaps − domestic	1,549	20	–	65,139	9	422
Cross-currency swaps – foreign	15,488	1,873	–	16,383	2,935	–
Total derivative assets/liabilities		**1,893**	**–**		**2,944**	**422**

Contracts are concluded with Georgian and foreign entities.

As of 31 December 2021, and 2020, the Group has positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates on specified notional amounts. In respect of swap assets with fair value of GEL 1,873 as at 31 December 2021 (2020: GEL 2,935), the Group received GEL 1,921 (2020: GEL 3,080) as cash collateral, presented in Other liabilities (Note 20). The Group's claims under the swap agreements can be offset against the collateral in certain circumstances as per the terms of the offsetting provisions in the relevant framework agreement. As at 31 December 2021 and 2020, derivative assets and respective collateral received did not qualify to offset in accordance with IAS 32, *Financial Instruments: Presentation.*

(Thousands of Georgian Lari)

9. Loans to customers

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

	2021	*2020*
Agro loans	728,043	530,225
Urban loans	494,301	360,002
Tourism loans	72,614	54,629
Other	192,779	124,742
Gross loans to customers	**1,487,737**	**1,069,598**
Less: expected credit losses	(55,586)	(33,172)
Loans to customers	**1,432,151**	**1,036,426**

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

	2021	*2020*
Agro micro loans	514,706	381,233
Agro, tourism and urban SME loans	326,107	203,809
Consumer loans	323,843	243,391
Urban micro loans	301,129	220,483
Tourism micro loans	17,763	16,186
Pawnshop loans	4,189	4,496
Gross loans to customers	**1,487,737**	**1,069,598**
Less: expected credit losses	(55,586)	(33,172)
Loans to customers	**1,432,151**	**1,036,426**

The Group provides loans in GEL, USD and EUR. 90% of the gross loan portfolio is denominated in GEL (2020: 90%).

Expected credit losses on loans to customers at amortised cost

An aggregate analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2021 is as follows:

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

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

Per segment analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2021 is as follows:

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

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

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)

9. Loans to customers (continued)

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

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

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

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

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

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

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

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

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

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

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

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

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

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**304,411**	**10,118**	**2,005**	**3**	**316,537**
New assets originated or purchased	368,775	–	–	–	**368,775**
Assets repaid	(300,702)	(3,966)	(236)	(1)	**(304,905)**
Transfers to Stage 1	685	(558)	(127)	–	**–**
Transfers to Stage 2	(19,616)	19,802	(186)	–	**–**
Transfers to Stage 3	(32)	(5,456)	5,488	–	**–**
Amounts written off	–	–	(7,165)	–	**(7,165)**
Foreign exchange and other movements	4,241	495	3,254	1	**7,991**
At 31 December 2020	**357,762**	**20,435**	**3,033**	**3**	**381,233**

Agro micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**2,183**	**1,374**	**1,428**	**–**	**4,985**
New assets originated or purchased	3,407	–	–	–	**3,407**
Assets repaid	(2,569)	(692)	(365)	(1)	**(3,627)**
Transfers to Stage 1	19	(17)	(2)	–	**–**
Transfers to Stage 2	(3,261)	3,282	(21)	–	**–**
Transfers to Stage 3	–	(3,194)	3,194	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	3,318	2,181	1,895	1	**7,395**
Amounts written off	–	–	(7,165)	–	**(7,165)**
Foreign exchange and other movements	41	78	3,215	–	**3,334**
At 31 December 2020	**3,138**	**3,012**	**2,179**	**–**	**8,329**

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

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

Urban micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**157,889**	**3,695**	**555**	**10**	**162,149**
New assets originated or purchased	208,395	–	–	–	**208,395**
Assets repaid	(148,478)	(1,795)	(146)	(4)	**(150,423)**
Transfers to Stage 1	418	(384)	(34)	–	**–**
Transfers to Stage 2	(20,070)	20,093	(23)	–	**–**
Transfers to Stage 3	(37)	(3,390)	3,427	–	**–**
Amounts written off	–	–	(3,044)	(9)	**(3,053)**
Foreign exchange and other movements	1,138	760	1,514	3	**3,415**
At 31 December 2020	**199,255**	**18,979**	**2,249**	**–**	**220,483**

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**174,497**	**1,161**	**608**	**–**	**176,266**
New assets originated or purchased	350,134	–	–	–	**350,134**
Assets repaid	(273,725)	(914)	(231)	–	**(274,870)**
Transfers to Stage 1	708	(646)	(62)	–	**–**
Transfers to Stage 2	(15,330)	15,362	(32)	–	**–**
Transfers to Stage 3	(3)	(8,946)	8,949	–	**–**
Amounts written off	–	–	(7,058)	–	**(7,058)**
Foreign exchange and other movements	(5,563)	309	4,173	–	**(1,081)**
At 31 December 2020	**230,718**	**6,326**	**6,347**	**–**	**243,391**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**1,850**	**326**	**495**	**–**	**2,671**
New assets originated or purchased	5,234	–	–	–	**5,234**
Assets repaid	(5,782)	(529)	(252)	–	**(6,563)**
Transfers to Stage 1	68	(66)	(2)	–	**–**
Transfers to Stage 2	(4,512)	4,525	(13)	–	**–**
Transfers to Stage 3	–	(5,292)	5,292	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	7,235	2,398	2,836	–	**12,469**
Amounts written off	–	–	(7,058)	–	**(7,058)**
Foreign exchange and other movements	42	201	4,069	–	**4,312**
At 31 December 2020	**4,135**	**1,563**	**5,367**	**–**	**11,065**

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

Pawnshop loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2020	**64**	**1**	**–**	**–**	**65**
New assets originated or purchased	46	–	–	–	**46**
Assets repaid	(51)	(1)	(3)	–	**(55)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(21)	21	–	–	**–**
Transfers to Stage 3	–	(30)	30	–	**–**
Impact on period end ECL of exposures transferred between stages during the period and changes in models and inputs	(23)	62	5	–	**44**
Amounts written off	–	–	(37)	–	**(37)**
Foreign exchange and other movements	–	1	16	–	**17**
At 31 December 2020	**15**	**54**	**11**	**–**	**80**

Tourism micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
At 1 January 2020	**17,527**	**263**	**78**	**–**	**17,868**
New assets originated or purchased	12,086	–	–	–	**12,086**
Assets repaid	(13,656)	(384)	(7)	–	**(14,047)**
Transfers to Stage 1	37	(37)	–	–	**–**
Transfers to Stage 2	(9,503)	9,504	(1)	–	**–**
Transfers to Stage 3	–	(151)	151	–	**–**
Amounts written off	–	–	(197)	–	**(197)**
Foreign exchange and other movements	(101)	495	82	–	**476**
At 31 December 2020	**6,390**	**9,690**	**106**	**–**	**16,186**

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

(Thousands of Georgian Lari)

9. Loans to customers (continued)

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

The movements in the above table do not include recoveries of assets written-off that reduce credit loss expense in profit or loss. Reconciliation of credit loss expense on loans to customers for the years 2021 and 2020 is as follows:

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

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

Modified and restructured loans

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

During 2020 and 2021, the Group has modified the terms and conditions of certain corporate and commercial loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of the COVID-19 pandemic. The Group considered these modifications to be non-substantial. The Group recognised a net modification loss of GEL 217 and GEL 642 in profit or loss for the years 2021 and 2020 respectively.

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

	2021	*2020*
Loans modified during the period		
Restructured loans as at 31 December	130,068	97,499
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	18,277	–

Collateral and other credit enhancements

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

The loans with a value at origination of over USD 15 thousand are collateralised. The main types of collateral are land and other real estate, vehicles.

As at 31 December 2021 and 2020, collateral does not have any material impact on ECL on Stage 3 loans (collectively assessed).

Note 16 includes information about repossessed collateral.

(Thousands of Georgian Lari)

9. 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:

	2021	*2020*
Agriculture	571,570	398,003
Trade	288,851	242,944
Service	285,944	187,552
Consumer	128,542	184,658
Manufacturing	54,267	33,495
Transportation	3,826	20,980
Other	154,737	1,966
	1,487,737	**1,069,598**
Less: expected credit losses	(55,586)	(33,172)
Net loans to customers	**1,432,151**	**1,036,426**

10. Investment securities at amortised cost

	2021	*2020*
Debt securities at amortised cost		
Treasury bills of the Ministry of Finance (BB rated)	26,977	17,390
Corporate bonds of foreign issuers (AAA rated)	26,128	26,122
Debt securities at amortised cost	**53,105**	**43,512**

All balances of investment securities are held at amortised cost and are allocated to Stage 1. ECL was not material as at 31 December 2021 and 2020.

11. Property and equipment

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

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

(Thousands of Georgian Lari)

11. Property and equipment (continued)

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

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

The gross amount of fully depreciated property and equipment that is still in use in 2021 was GEL 13,123 (2020: GEL 9,248).

12. Intangible assets

The movements in intangible assets were as follows in 2021:

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

(Thousands of Georgian Lari)

12. Intangible assets (continued)

The movements in intangible assets 2020 were as follows:

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

13. Leases

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

	Right-of-use assets (offices and other real estate)
31 December 2020	**18,161**
Additions	4,240
Additions from business combination (Note 5)	4,253
Disposals and write-offs	(6,667)
31 December 2021	**19,987**
Accumulated depreciation	
31 December 2020	**(8,743)**
Depreciation charge	(6,193)
Disposals and write-offs	2,731
31 December 2021	**(12,205)**
Net book value	
31 December 2020	**9,418**
31 December 2021	**7,782**

The movement in lease liabilities 2021 was as follows:

	Lease liabilities
As at 31 December 2020	**11,125**
Additions	4,240
Additions from business combination (Note 5)	4,760
Interest expense	1,101
Payments	(7,875)
Terminations	(4,633)
Foreign exchange effect	206
As at 31 December 2021	**8,924**

(Thousands of Georgian Lari)

13. Leases (continued)

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

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

The movement in lease liabilities 2020 was as follows:

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

The Group recognised rent expense from short-term leases of GEL 601 in 2021 (2020: GEL 232). Total cash outflows for leases amounted to GEL 8,291 (2020: GEL 6,704). The Group had non-cash additions to right-of-use assets and lease liabilities of GEL 4,240 in 2021 (2020: GEL 2,398), as well as non-cash additions arising from business combination (Note 5). Lease payments subject to termination options expected to be exercised and in respect of which no lease liability was recognised amounted to GEL 19,342 as at 31 December 2021 (2020: GEL18,273).

14. Taxation

The corporate income tax expense comprises:

	2021	*2020*
Current year tax charge	4,651	2,734
Deferred taxation charge due to origination and reversal of temporary differences	231	(1,259)
Total income tax expense	**4,882**	**1,475**

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

	2021	*2020*
Profit before tax	**41,592**	**12,333**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**6,239**	**1,850**
Non-deductible expenses	103	86
Tax losses utilised during the year	–	(388)
Tax exempt income	(1,763)	(679)
Effect from changes in future tax rates and other movements	303	606
Income tax expense	**4,882**	**1,475**

(Thousands of Georgian Lari)

14. Taxation (continued)

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

Following the enactment of the amendments, the Group remeasured its deferred tax assets and liabilities at the tax rates that were expected to apply to the period when the asset is realised or the liability is settled. As IAS 12 *Income Taxes* requires, the Group used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realised or settled in the periods when the new regulation becomes effective starting from 1 January 2023 for the purpose of deferred tax measurement as at 31 December 2021.

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 2021 and 2020.

Deferred tax assets and liabilities as of 31 December 2021 and 2020 and their movements for the respective years comprise:

	31 December 2019	*Recognised in profit or loss*	*31 December 2020*	*Business combination (Note 5)*	*Recognised in profit or loss*	*31 December 2021*
Tax effect of deductible temporary differences						
Loan portfolio, except for expected credit losses	1,363	297	1,660	1,605	(2,030)	1,235
Deferred tax assets	**1,363**	**297**	**1,660**	**1,605**	**(2,030)**	**1,235**
Tax effect of taxable temporary differences						
Expected credit losses	(1,680)	802	(878)	(678)	1,053	(503)
Property and equipment and intangible assets	(1,596)	326	(1,270)	(56)	–	(1,326)
Loans and borrowings	(376)	(132)	(508)	(831)	598	(741)
Salaries payable and other liabilities	(107)	(34)	(141)	–	81	(60)
Other assets	–	–	–	(67)	67	–
Deferred tax liabilities	**(3,759)**	**962**	**(2,797)**	**(1,632)**	**1,799**	**(2,630)**
Net deferred tax assets/ (liabilities)	**(2,396)**	**1,259**	**(1,137)**	**(27)**	**(231)**	**(1,395)**

15. Other financial assets

Other financial assets comprise:

	2021	*2020*
Other financial assets		
Local funds in settlement	5,406	5,907
International money settlements	2,504	1,719
Accrued life insurance fees	1,274	1,212
Receivables from employees	144	92
Other	2,616	1,985
Less: allowance for impairment of other financial assets	(1,820)	(1,390)
Total financial assets	**10,124**	**9,525**

The Group recognised GEL 431 charge on allowance for impairment of other financial assets (2020: GEL 155), that were presented in other operating expenses.

16. Other non-financial assets

Other non-financial assets comprise:

	2021	*2020*
Other non-financial assets		
Prepayments and advances	3,951	5,433
Repossessed property	3,741	2,180
Inventory	1,069	675
Prepaid taxes other than income tax	711	817
Total non-financial assets	**9,472**	**9,105**

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

In 2021, the Group repossessed GEL 1,097 properties (mostly represented by real estate) in non-cash settlement of loans issued (2020: GEL 962). As at 31 December the Group has recognised provision for repossessed property GEL 191 (2020: GEL 191).

17. 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:

	2021	*2020*
Loans with floating interest rate	637,901	641,084
Loans with fixed interest rate	349,076	315,018
Loans from banks and other financial institutions	**986,977**	**956,102**

As at 31 December 2021 loans from banks and other financial institutions mature from January 2022 to December 2030 (2020: from March 2021 to December 2030), and are denominated in GEL, USD and EUR.

As at 31 December 2021 and 2020, the Group 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. Tables with subordinated loans breakdown aggregated separately for 2021 and 2020 individually presenting only loans that exceed 10% of subordinated loans balance as at 31 December 2021 and 2020 and consisted of the following:

	Currency	*Interest rate*	*Maturity*	*2021*
Loan 1	GEL	3 M TBIR + 7.8%	March 2028	11,716
Loan 2	USD	6 M Libor + 6.5%	December 2028	13,821
Other loans	GEL	3 M CD + 7.55%-9.02%, 13.55%-16.50%	December 2025 – July 2028	51,217
Subordinated loans				**76,754**

	Currency	*Interest rate*	*Maturity*	*2020*
Loan 1	GEL	3 M CD +9.02%	December 2025	5,051
Loan 2	GEL	3 M CD + 7.72%	April 2026	6,203
Loan 3	GEL	3 M CD + 7.55%	June 2026	4,029
Loan 4	GEL	16.50%	April 2027	6,953
Loan 5	GEL	16.50%	April 2027	6,953
Other loans	GEL	13.55%	September 2026	6,724
Subordinated loans				**35,913**

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.

(Thousands of Georgian Lari)

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

	Loans from banks and other financial institutions	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2019	**701,954**	**22,054**	**724,008**
Proceeds from disbursement	457,955	13,801	**471,756**
Redemption	(237,900)	–	**(237,900)**
Foreign currency translation	30,808	–	**30,808**
Change in fair value	(92)	–	**(92)**
Other	3,377	58	**3,435**
Carrying amount at 31 December 2020	**956,102**	**35,913**	**992,015**
Proceeds from disbursement	420,844	26,311	**447,155**
Business combination (Note 5)	40,638	14,457	**55,095**
Redemption	(413,362)	–	**(413,362)**
Foreign currency translation	(18,092)	(285)	**(18,377)**
Other	847	358	**1,205**
Carrying amount at 31 December 2021	**986,977**	**76,754**	**1,063,731**

The "Other" line includes the effect of accrued but not yet paid interest on other borrowed funds and subordinated loans and modification gains or losses. The Group classifies interest paid as cash flows from operating activities.

Changes in lease liabilities are provided in Note 13.

19. Customer accounts

The amounts due to customers include the following:

	2021	*2020*
Time deposits	304,139	68,538
Current accounts	95,634	62,000
Savings accounts	29,727	20,259
Accounts in course of settlement	492	3,286
	429,992	**154,083**

20. Other liabilities

	2021	*2020*
Salaries accrued	11,318	9,190
Payables for goods and services	7,627	4,484
Collateral under derivative contracts (Note 8)	1,921	3,080
Funds in settlement	1,769	1,843
Accrued expenses	1,580	1,220
Grant liabilities	745	1,172
Payables to shops	299	6,064
Taxes other than income tax payable	241	201
Other liabilities	152	650
	25,652	**27,904**

21. Equity

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

As of 31 December 2020, the Bank had authorised, issued and fully paid capital amounted to GEL 4,400 comprising of 440,000 common shares with nominal value of GEL 10.00.

(Thousands of Georgian Lari)

21. Equity (continued)

As of 31 December 2021, the Group had authorised, issued and fully paid 517,678 common shares with nominal value of GEL 10.00. Each share entitles one vote to the shareholder.

	Number of shares		*Nominal amount*	
	Preferred	*Ordinary*	*Preferred*	*Ordinary*
31 December 2019	**–**	**440,000**	**–**	**4,400**
31 December 2020	**–**	**440,000**	**–**	**4,400**
Increase in share capital	–	77,678	–	777
31 December 2021	**–**	**517,678**	**–**	**5,177**

The Group has issued 78,599 shares in 2021 for cash consideration of GEL 36,082, of which 921 shares are held in treasury for the purpose of share-based awards satisfaction as at 31 December 2021.

Dividends

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

On 26 November 2021, at the Extraordinary General Meeting of Shareholders, the Group declared a dividend distribution in amount of GEL 12,119 for 2020 (GEL 0.023 per share). Dividend declared was fully paid to shareholders in 2021. The Group did not declare dividends in 2020.

22. Commitments and contingencies

Credit related commitments

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

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

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

The respective undrawn balances are as follow:

	2021	*2020*
Undrawn limit on credit cards	23,668	27,343
Other loan commitments	9,856	5,085
Guarantees	30	35
	33,554	**32,463**

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

Operating environment

Georgia like all emerging markets is subject to different risks: economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. For the last three years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2020 and 2021 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

(Thousands of Georgian Lari)

22. Commitments and contingencies (continued)

Operating environment (continued)

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

In 2021 the government started to gradually lift numerous COVID-19 related restrictions as a response to massive vaccination, identification of newer and weaker variants. This has had a positive overall impact on the economy, with estimated 10.4% real GDP growth in 2021 as per Geostat. As at 31 December 2021, further economic recovery was expected in 2022, which was reflected in the NBG's macroeconomic forecasts and scenarios. Management of the Group has accumulated sufficient capital and liquidity buffers and plans to follow to the economic restoration trend and approved strategic plans, by further expansion in the target market.

Legal

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

Taxation

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

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

As at 31 December 2021 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained.

Insurance

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

23. Fee and commission income

Fee and commission income comprises:

	2021	*2020*
Fees from credit related activities	27,582	21,711
Fees from client accounts	5,279	2,024
Fees from settlement and cash operations	2,513	1,458
Other	3,423	1,417
	38,797	**26,610**

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

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

	2021	*2020*
Accrued income receivable (presented within other financial assets)	1,274	1,212

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.

24. Fee and commission expense

Fee and commission expense comprises:

	2021	*2020*
Fees from credit related activities	6,036	4,807
Fees from settlement and cash operations	4,532	1,817
Other	92	71
	10,660	**6,695**

25. Net losses from foreign currencies

Net losses from foreign currencies comprises:

	2021	*2020*
Dealing	1,834	2,186
Translation differences	1,439	(8,001)
Net result from foreign currency derivatives	(5,991)	3,121
	(2,718)	**(2,694)**

Net result from foreign currency derivatives includes GEL 2,256 interest element expenses related to swaps represented by amortization of forward points (difference between the contractual forward and spot rates) (2020: GEL 3,060) and similar interest element expense on other foreign currency derivatives of GEL 974 (2020: GEL 1,008).

26. Other operating income

Other operating income comprises:

	2021	*2020*
Income from grants	677	209
Gain from sale of repossessed property	172	11
Reversal of the provision for repossessed property (Note 16)	–	230
Other	539	13
	1,388	**463**

27. Other operating expenses

Other operating expenses:

	2021	*2020*
Expenses for disposal of property, plant and equipment	1,001	11
Provisioning of court expenses	431	155
Other operating expense	520	118
	1,952	**284**

28. Personnel expenses

Personnel expenses comprise:

	2021	*2020*
Salary expenses	71,160	54,726
Other personnel expenses	9,108	8,235
	80,268	**62,961**

(Thousands of Georgian Lari)

28. Personnel expenses (continued)

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

The average number of Group's full-time employees during 2021 and 2020 was:

Category	***2021***	***2020***
Directors	6	4
Management	158	131
Professional staff	2,650	2,386
Total	**2,814**	**2,521**

In addition to stated above, on average 3,080 employees were employed under temporary service contracts in 2021 (2020: 2,543).

29. Other general administrative expenses

	2021	***2020***
Transport and travel expenses	5,569	3,824
Software expenses	4,353	1,836
Legal and advisory expenses	3,450	2,352
Supplies and other consumables	2,739	2,630
Marketing, advertising and entertainment	2,517	1,342
Communication expenses	2,391	2,073
Repair and maintenance	2,224	868
Rent and utilities	2,173	1,275
Operating taxes	1,509	1,413
Insurance expenses	894	567
Security service expenses	319	245
Training	211	469
Other	1,464	1,750
	29,813	**20,644**

Auditor's remuneration

Legal and advisory expenses include auditor's remuneration. Remuneration of the Group's auditor for the years ended 31 December 2021 and 2020 comprises:

	2021	***2020***
Fees for the audit of the Group's annual financial statements for the year ended 31 December	288	189
Expenditures for other professional services	7	4
	295	**194**

Fees and expenditures to other auditors and audit firms in respect of the other professional services comprised GEL 684 (2020: GEL 334).

30. Risk management

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

Supervisory Board and Management Board

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Supervisory Board and Management Board (continued)

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

Risk Management Committee

Risk Management Committee oversees risks managed by risk department including credit, market, liquidity, operational, compliance, information security and reputational risk of the Bank. Risk Management Committee approves the Bank-wide compliance with risk management best practices, analysing all financial and non-financial risks. The Committee also assists the Supervisory Board in overseeing risk governance structure, including risk assessment guidelines and policies, risk tolerance and risk appetite.

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 regularly. 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.

Internal audit

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

Credit risk

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

Credit risk is monitored by credit department. There are several levels of approval based on the total exposure to the respective customer, client or counterparty.

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

Decision on loan issuance is approved by the Group's credit committee of appropriate level, depending on the total exposure and product of the loan. The Group has several levels of credit committees, starting from the credit committee of a service center and up to the Head Office credit committee. After certain range the loan issuance is approved by the supervisory board as a top-level 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 revenues and its credit risks through the use of scoring models and application data verification procedures). Eventually the Credit Committee members assess the application against the established criteria (applicant's credit history, financial condition, competitive ability, etc.).

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

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

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

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

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

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

Definition of default

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

- Bankruptcy proceedings of the borrower have been initiated;
- The Group has initiated court procedures against the borrower;
- ;
- 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 Group considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

(Thousands of Georgian Lari)

30. Risk management (continued)

Credit risk (continued)

PD estimation process

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

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

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

Incorporation of forward-looking information

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

The Group has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data, and has assessed the impact of macro-economic variables on the 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 3 years (2020: past 2 years). Macroeconomic factors regularly published by the NBG are applied. Based on this analysis, the Group identified portfolio default correlation with real growth rate of GDP of Georgia (2020: real growth rate of GDP, Nominal Effective Exchange Rate Indices (Monthly) and GEL/USD exchange rate).

Key drivers	***2022***	***2023***	***2024***
GDP growth, %			
Upside (25% weight)	6.0%	5.0%	4.5%
Base case (50% weight)	5.0%	4.0%	4.5%
Downside (25% weight)	2.0%	4.0%	5.0%

Key macroeconomic drivers applicable for ECL estimation as at 31 December 2020 were:

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Credit risk (continued)

Exposure at default

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

Loss given default

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

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

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

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. If contractual payments are more than 30 days past due, Group considers the credit risk is deemed to have increased significantly since initial recognition. In context of COVID-19 pandemic outbreak's continuing impact, the Group identified significant increase in credit risk in respect of certain exposures to economic sectors most affected by the pandemic (Note 4).

Credit quality of loans to customers

The following table provide information on the credit quality of loans to customers as at 31 December 2021:

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Credit risk (continued)

Not overdue loans to customers presented in stage 2 and stage 3 above largely fall in the following categories:

- Exposures that were subject to the government moratoria related to COVID-19 pandemic and for which the borrowers' income source is exposed to the vulnerable industries like tourism, restaurant and hotel services.
- Contaminated exposures in accordance with the changes introduced in 2021;
- exposures in the vulnerable industries like construction and repairs, restaurants cafés subject to management's overlay based on PTI threshold (Note 4).

The Group determined that significant increase in credit risk occurred for such loans and recognised expected credit losses on a life-time basis in their respect.

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

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

Financial risk

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

These risks are controlled and managed on ongoing basis.

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

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, these include medium and long-term funds from international financial institutions (IFIs) and loans with local banks, to provide funds timely upon request, in addition to customer deposits. 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. The short-term liquidity plan is revised at the beginning of every month. The plan includes weekly liquidity planning for the following one month and detailed planning for the next two months, along with projections for the following twelve months that are updated on a monthly basis.

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

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

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

(Thousands of Georgian Lari)

30. Risk management (continued)

Liquidity risk (continued)

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

The liquidity position is assessed and managed by the Group, based on certain liquidity ratios established by the NBG. Under the requirement Banks must hold liquid assets that can be used to meet their liquidity needs for upcoming 30-calendar days. As at 31 December 2021 and 2020 the ratios were as follows:

	2021	*2020*
LK "Liquidity Coverage Ratio" in FC (hold high-quality liquid assets / Total net cash outflow)	396%	817%
LK "Liquidity Coverage Ratio" in NC (hold high-quality liquid assets / Total net cash outflow)	318%	454%
Total LK "Liquidity Coverage Ratio" (hold high-quality liquid assets / Total net cash outflow)	354%	591%

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

From 1 September 2019, the NBG additionally introduced the minimum requirement for Net Stable Financing Ratio (NSFR) for commercial banks in Georgia, which should be at least 100%. As of 31 December 2021, the Group's NSFR was 127% (2020: 126%).

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December 2021 based on contractual undiscounted inflows and obligations:

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

30. Risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December 2020 based on contractual undiscounted obligations:

	Demand and less than 1 month	*More than 1 month and less than 1 year*	*More than 1 year*	*Total gross inflow / outflow*
Cash and cash equivalents	165,631	–	–	**165,631**
Amounts due from credit institutions	–	50,351	–	**50,351**
Net-settled derivative financial instruments	–	–	2,935	**2,935**
Gross-settled derivatives financial instruments	63,501	1,647	–	**65,148**
Loans to customers	65,288	592,367	705,316	**1,362,971**
Investment securities	252	3,520	55,551	**59,323**
Other financial assets	7,759	1,789	2,374	**11,922**
Total financial assets	**302,431**	**649,674**	**766,176**	**1,718,281**
Loans from banks and other financial institutions	10,307	440,528	680,525	**1,131,360**
Net-settled derivative financial instruments	83	891	648	**1,622**
Gross-settled derivative financial instruments	64,739	1,666	–	**66,405**
Customer accounts	92,963	58,725	5,340	**157,028**
Other payables	18,876	3,924	3,152	**25,952**
Lease liabilities	563	5,827	6,012	**12,402**
Subordinated debt	462	5,147	59,692	**65,301**
Total financial liabilities	**187,993**	**516,708**	**755,369**	**1,460,070**
Financial irrevocable commitments and contingencies	5,120	–	–	**5,120**
Maturity gap	**109,318**	**132,966**	**10,807**	**253,091**

Currency risk

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

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

		2021			*2020*	
	USD	*EUR*	*Other FC*	*USD*	*EUR*	*Other FC*
Cash and cash equivalents	68,375	9,352	1,426	49,176	29,786	1,746
Amounts due from credit institutions	10,667	8,477	–	41,315	9,036	–
Loans to customers	46,108	88,110	–	37,217	61,177	–
Other monetary assets	1,306	659	668	834	604	197
Total assets	**126,456**	**106,598**	**2,094**	**128,542**	**100,603**	**1,943**
Loans and borrowings	(61,135)	(87,436)	(1,383)	(165,776)	(99,536)	–
Customer accounts	(76,053)	(18,534)	(263)	(36,779)	(6,485)	(271)
Lease liabilities	(2,725)	–	–	(4,892)	–	–
Other monetary liabilities	(2,567)	(30)	(30)	(3,782)	(36)	(6)
Total liabilities	**(142,480)**	**(106,000)**	**(1,676)**	**(211,229)**	**(106,057)**	**(277)**
The effect of derivatives held for risk management	17,933	(245)	(1,791)	81,522	–	(1,641)
Net position after derivatives held for risk management purposes	**1,909**	**353**	**(1,373)**	**(1,165)**	**(5,454)**	**25**

(Thousands of Georgian Lari)

30. Risk management (continued)

Currency risk (continued)

Exchange rate sensitivity analysis

A weakening of the GEL, as indicated below, against the foreign currency at 31 December 2021 and 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2021	***2020***
20% appreciation of foreign currency against GEL	178	(1,319)
20% depreciation of foreign currency against GEL	(178)	1,319

Interest rate risk

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

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

Currency	***Sensitivity of net interest income 2021***	***Sensitivity of net interest income 2020***
GEL (-1%/ +1%)	5,080 / (5,080)	5,063 / (5,063)
USD (-1%/+1%)	286 / (286)	744 / (744)

The table reflects asset and liabilities that are exposed to interest rate risk as of 31 December 2021:

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

30. Risk management (continued)

Interest rate risk (continued)

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

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

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 2021 and 2020 is as follows:

	2021	*2020*
	Profit (loss)	*Profit (loss)*
100 bp parallel fall	1,465	302
100 bp parallel rise	(1,465)	(302)

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. During 2021, the Group continued to design detailed plans, processes and procedures to support the transition in the future periods when the majority of the Group's IBOR-linked exposures are planned to be transitioned to the new benchmark rates.

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

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

The Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs is limited to loans from banks and other financial institutions with carrying value as at 31 December 2021 of GEL 15,488 linked to 6m LIBOR. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., this amount excludes exposures to IBOR that will expire before transition is required. The Group's contracts include a fallback clause for automatic transition to RFRs at their respective effective dates.

30. 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, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Anti-money laundering (AML) compliance is controlled by a dedicated AML unit.

Tax compliance is monitored by the tax compliance unit.

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

31. Fair value measurements

Fair value measurement procedures

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

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

As at 31 December 2021 and 2020, the Group does not have any financial instruments measured at fair value, for which fair value is based on valuation techniques involving the use of significant non-market observable inputs.

Fair value hierarchy

The tables below analyses the values of financial instruments at 31 December 2021 and 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Fair value measurement using			
At 31 December 2021	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying Amount***
Assets measured at fair value				
Derivative financial assets				
Foreign exchange swaps	1,893	–	**1,893**	**1,893**
Assets for which fair values are disclosed				
Cash and cash equivalents	185,108	–	**185,108**	**185,108**
Amounts due from credit institutions	19,144	–	**19,144**	**19,144**
Loans to customers	–	1,141,230	**1,141,230**	**1,432,151**
Investment securities	53,105	–	**53,105**	**53,105**
Liabilities for which fair values are disclosed				
Loans from banks and other financial institutions, including subordinated debt	1,062,285	–	**1,062,285**	**1,063,731**
Customer accounts	432,046	–	**432,046**	**429,992**
Lease liabilities	8,924	–	**8,924**	**8,924**

(Thousands of Georgian Lari)

31. Fair value measurements (continued)

Fair value hierarchy (continued)

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

Valuation techniques and assumptions

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

Assets and liabilities for which fair value approximates carrying value

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

Derivatives

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

Fixed rate financial instruments

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

(Thousands of Georgian Lari)

32. 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.

	2021		2020	
	Transaction value	*Balance*	*Transaction value*	*Balance*
Consolidated statement of financial position				
Liabilities				
Loans from banks and other financial institutions except subordinated	–	107,955	–	48,909
Subordinated debt	–	35,920	–	20,631
Customer accounts	–	1,236	–	1,242
Profit or loss				
Loans from banks and other financial institutions except subordinated − interest expense	14,405	–	4,241	–
Subordinated debt − interest expense	4,203	–	2,453	–
Customer account-interest expense	45	–	32	–
Other general and administrative expense	1,397	–	1,439	–

Loans from banks and other financial institutions, subordinated debt and their related interest expense represent transactions with shareholders with significant influence over the Group. In addition, other general and administrative expenses represent consultation service fees provided by the controlling shareholder. As at 31 December 2021 loans received from related parties mature from July 2022 to July 2028, are denominated in EUR and GEL and carry interest rates from 3.70% to 16.50%. Customer accounts are attributed to the members of key management personnel.

As at 31 December 2020, loans received from related parties mature from April 2021 to April 2027, are denominated in EUR and GEL and carry interest rates from 3.70% to 14.50%.

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:

	2021	*2020*
Members of the Management Board	3,455	2,410

In 2021 the Group granted cash-settled share-based awards to the members of the Management Board. Share-based payment expense for 2021 was GEL 122.

33. Capital adequacy

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

As at 31 December 2021 and 2020, the Group complied with all its externally imposed capital requirements.

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

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

(Thousands of Georgian Lari)

33. Capital adequacy (continued)

NBG Capital adequacy ratio

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

NBG Basel II/III Capital adequacy ratio

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

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

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

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

In March 2020 NBG introduced Temporary Supervisory Plan, which implies lowering the current capital requirements to mitigate COVID-19 Pandemic negative financial effects. According to the plan Conservation buffer (2.5% of the risk weighted assets) has been eliminated; Currency induced credit risk buffer (CICR) reduced by 2/3rds; The phase-in of net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed. The restoration of buffers are planned in line with the economy and sector restoration process, starting from 2022.

The Bank did not utilise the NBG Temporary Supervisory Plan and already in 2021 returned to the standard requirements.

As of 31 December 2021, under total Basel II/III requirements the Group was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 13.77%, 8.11% and 9.98%, respectively (2020: 10.57%, 4.95%, 6.61%).

The Group was in compliance with these capital adequacy ratios as of 31 December 2021 and 2020. The Group's capital adequacy ratios on this basis were as follows:

	2021	*2020*
Common Equity Tier 1 capital	190,970	143,907
Additional Tier 1 capital	–	–
Tier 1 capital	**190,970**	**143,907**
Tier 2 capital	84,949	45,486
Total regulatory capital	**275,919**	**189,393**
Risk weighted assets	**1,655,955**	**1,249,026**
Common Equity Tier 1 capital ratio	11.5%	11.5%
Total Tier 1 capital adequacy ratio	11.5%	11.5%
Regulatory capital ratio	16.7%	15.2%

(Thousands of Georgian Lari)

34. Events after reporting period

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general. The Group's management is monitoring the economic situation in the current environment. The Group considers the war in Ukraine to be a non-adjusting post balance sheet event.