

# **JOINT STOCK COMPANY HALYK BANK GEORGIA**

Financial Statements and Management Report  
For the Year Ended December 31, 2022

# JOINT STOCK COMPANY HALYK BANK GEORGIA

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# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company Halyk Bank Georgia (the "Bank") as at December 31, 2022, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS"). Management is also responsible for the preparation of management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the financial statements and the management report, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern;
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing; and
- Preparation of the management report in a manner consistent with the financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRSs;
- Maintaining statutory accounting records in compliance with legislation of Georgia;
- Taking such steps that are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements and management report for the year ended December 31, 2022 were authorised for issue on March 2, 2023 by the Management Board of the Bank.

**On behalf of the Management Board:**

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**Konstantine Gordeziani**  
**Deputy General Director**

March 2, 2023  
Tbilisi, Georgia

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**Gulnara Marshanishvili**  
**Chief Accountant**

March 2, 2023  
Tbilisi, Georgia

# JOINT STOCK COMPANY HALYK BANK GEORGIA

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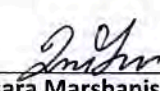
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On behalf of the Management Board:

  
Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia



  
Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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### Overview

Joint Stock Company Halyk Bank Georgia (the “Bank”) is a wholly owned subsidiary of JSC Halyk Bank Kazakhstan, which has been operating on the Georgian market since 2008.

The main activities of the Bank in 2009 were creation of all necessary conditions for the sale of banking products, in particular, building of banking infrastructure, attraction of qualified personnel and formalization of the operating activities.

Since 2010, the Bank has been implementing active operations, concluding transactions for the purchase of government securities, and carrying out interbank transactions in the money market. From the first quarter of 2010, the Bank began an active lending process, which it successfully pursues to the present day.

The Bank has its own nine well-developed representative offices (branches/service point) as well as ATM’s and POS’s. Three of out of nine branches are located in the regions of the country (Batumi, Kutaisi and Poti), with the remaining six branches are located in the capital city of Georgia.

The Bank focused on the continuation of successful activities in all market segments - retail business, small and medium business, as well as corporate business. To this end, the Bank offers its customers a wide range of services - a large variety of credit products, payroll projects, various options for current accounts and time deposits, card products, remote banking services and documentary operations.

The Bank has made significant investments in the development of information technology and payment systems and continues to excel at innovative banking products of the market. The Bank has developed international correspondent relations that allow payment transactions worldwide. The Bank participates in the SWIFT system and the Real Time Gross Settlement (the RTGS) system operated by the National Bank of Georgia (the “NBG”). In February 2022, a general agreement was signed with Tenge Bank for interbank operations in the foreign exchange and money market.

The Bank constantly works on improvement of the quality of financial services and offering new, innovative products for customers. In particular, Bank will focus on developing new and improving existing retail products and their distribution channels. In addition, one of the components of quality improvement, along with the development of banking products, will be an increase in the availability of products - development of the Bank’s branches and the development of remote service channels.

In 2022 the transformation of branches was completed. Roles, rights and limits were approved, internal procedures, official instructions were changed and a motivation scheme was introduced. A centralized back-office department was established, whose mission is to increase the level of satisfaction of the bank’s customers by providing proper support to the sales points.

As a result of the merger of the Retail Products Development Division and the Remote Services Development Division, the Banking Products Development Division was created. In September 2022, a new service point was opened in the city of Poti.

The success of the Bank’s implementation of strategy requires the alignment of strategy with the Bank’s internal governance framework. The Bank has strong systems of risk management and internal controls, which allows the Bank to pursue its strategy in a way that risk appetite can be set and risks robustly identified, assessed, managed and reported effectively.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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### *Share Capital of the Bank*

As of December 31, 2022, share capital of the bank comprised 76,000 ordinary shares with a nominal amount of GEL 1,000. There were no shares held in treasury. The Bank has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Bank's ordinary shares are set out in the Charter of the Bank. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote. Details of the movements in share capital during the year are provided in Note 18 to the financial statements.

### **Financial performance review**

The Bank is development oriented full-service bank which is mainly positioned in SME and corporate segments due to its focus on long-term partnership, top-quality financial products, and services. The Bank aims to be house bank for retail clients as well which is why it constantly working to improve the quality of financial services and offer new, innovative products for retail customers. Despite amid challenging operating environment bank has managed to increase its retail loan portfolio by 6%. Bank plans to keep its strategic focus on SME and retail segments in coming years. As at December 31, 2022 according to the consolidated report of commercial banks of Georgia issued by the NBG, the Bank ranked at 9th place by total assets and it has reached market share of 1.36% in the banking sector.

In November 2022, Fitch Ratings has affirmed JSC Halyk Bank Georgia's (HBG) Long-Term Issuer Default Ratings (IDRs) at 'BB+' with Stable Outlook. Rating of the Bank has not changed since the previous year.

ROE (return on equity, calculated by dividing net income to average monthly equity) – a basic measure of profitability – to nearly 10% as at December 31, 2022 came in line with banks' projections from the beginning of the year.

Other key performance indicators are as follows:

- Loan Loss Rate (LLR) (Expected Credit Loss divided by Gross amount of Loans to Customers) - 2022: 2.75%; 2021: 2.88%;
- Cost to income Ratio (Operating expenses divided by the sum of other income and interest income less provisions and recoveries): - 2022 55.09%; 2021: 52.74%
- Personnel outflow - 2022: 21.6%; 2021: 11.5%

It is worth mentioning that the LLR ratio of the Bank remains coherent to the Georgian banking sector. Non-performing loans (overdue days more than 90) has increased from 3.1% to 4%.

Among other indicators, the number of depositors of the Bank (2022: 27,074; 2021: 24,439; Growth: 11%), and number of employees (2022: 308; 2021: 290; Growth: 6%) has increased.

The Bank fully complied with the requirements of the National Bank of Georgia.

In particular, as of December 31, 2022:

- CET 1 amounted to GEL 119,720 thousand versus the required GEL 62,394 thousand.
- Tier 1 capital amounted to GEL 119,720 thousand versus the required GEL 83,219 thousand.
- Total regulatory capital amounted to GEL 157,191 thousand versus the required GEL 118,187 thousand.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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Other key figures are available in the notes to the financial statements.

Net income before taxes amounted GEL 19,233 thousand up 26.5% year-on-year, driven by an increase in net interest income. Due to change in tax legislation, income tax expense increased by 2,430% and amounted GEL 4,776 thousand, accordingly net income decreased by 6% year-on-year.

Total assets decreased by GEL 18.8 million or -1.87% y/y growth, as a result the total assets amounted to GEL 984 million GEL as at 31 December 2022. The decrease mainly originated from a decrease in Loans to customers. The portfolio of loans denominated in GEL has decreased by -11.4% in 2022 compared to the end of 2021, that is related with significant appreciation of GEL to USD by 12.8% and to EUR 17.7%, taking into account that two thirds of the loan portfolio is in foreign currency. Excluding exchange rate effect, the gross loan portfolio did not change compared to 2021.

As of the end of 2022, total customer deposits decreased by 13% vs. the end of 2021 which was partially compensated by issued own debt securities amounted to GEL 23,606 thousand.

As at December 31, 2022 current assets exceeded current liabilities by GEL 65,754 thousand, while as at December 31, 2021 current assets exceeded current liabilities by GEL 42,546 thousand. As at December 31, 2022 cash generated income was equal to GEL 27,218 and outflow from operating activities was equal to GEL 39,416 thousand, while as at December 31, 2021 cash generated income was equal to GEL 26,503 and outflow from operating activities was equal to GEL 77,735 thousand.

### Corporate governance and risk management

The Bank conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, clear segregation of authorities and effective communications between different entities facilitate clarity regarding the Bank's strategic and risk objectives, adherence to the established risk appetite and sound risk management.

The Bank's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Supervisory Board has overall responsibility to set the tone at the top of the Board of Directors (the "Board") and monitor compliance with the established objectives, while the Board governs and directs the Bank's daily activities.

The principal risk management bodies of the Bank are: Supervisory Board, the Board of Directors, Risk Committee, Audit Committee, Financial Risk and Portfolio Analysis department, Operations risk department, Credit risk management department, Asset and Liability Management Committee (the "ALMC"), Internal Audit Department, Treasury Department and Credit Committees:

- The Board of Directors has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. The Board of Directors establishes the Bank's core values, sets and oversees the execution of the Bank's strategy within a framework of strong and effective risk management and internal controls. In order to effectively implement the risk management system, the Board of Directors delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.
- The Board of Directors is composed of five Directors, all of them are Executive Directors. The members of Board of Directors are selected based on decision of Supervisory Board. Each of the member has clearly defined roles within the board structure.

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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The risk committee considers risk strategies, risks management policies and monitors Bank's compliance with them. It provides recommendations to Supervisory body to bring all risks in accordance with the risk appetites.

- The Audit Committee oversees and challenges in relation to its internal control and risk management systems in relation to the financial reporting process. It is responsible for implementing key accounting policies and facilitating internal and external auditor activities.

The Assets and Liabilities Management Committee (the "ALMC") provides important management information systems and oversight financial risk management process in the Bank. One of the ALMC's goals is to ensure adequate liquidity while managing the Bank's spread between the interest income and interest expense. Investments and operational risk are also major considerations. The Meeting of ALMC is held at least once a month to review monthly reports prepared by Financial Risks and Portfolio Analysis Department. In accordance with the established methodology, the ALMC occasionally reviews the policies and limits of financial risk management limits.

- There are three departments operating in different risk management areas. The Financial Risk and Portfolio Analysis department guides the risk management activities and monitors the major risk trends to ensure that the risk profile complies with the established risk appetites in the areas of financial risks and portfolio analysis. In 2021, a separate operation risk management department was established to manage operational risk issues. Besides, the Credit risk management department is responsible for controlling credit activities and preparing conclusions on credit projects.
- The Internal Audit Department is responsible for the regular audit of the Bank's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Bank's internal control systems and detecting infringements or errors on the part of the Bank's departments and divisions. It examines both, the adequacy and the Bank's compliance with those procedures. The Bank's Internal Audit Department discusses the results of all assessments with management and reports its findings and recommendations to the Bank's Audit Committee. The Bank's Internal Audit Department is independent of the Bank's management board. The Head of the Bank's Internal Audit Department is appointed by the Bank's Supervisory Board and reports directly to the Bank's Audit Committee.
- Treasury department is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.
- The Bank has various credit committees (together, the "Credit Committees"), each one supervising and managing the Bank's credit risks in respect of loans for retail, Small/Medium enterprise (the "SME") and corporate loans. These committees are: Large Credit Committee, Small/Medium Credit Committee and three levels of Retail Credit Committees. Each committee in Corporate and SME segments consists of at least one director and head of credit risks department or a director – supervisor of risks. Membership of credit committees in retail segment differs by the level of committee. Above permitted statements are approved by the Board of Directors, the Supervisory Board and / or the relevant Committee of the Parent bank.



**MANAGEMENT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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Formal policies and procedures have been developed at the Bank level, with the help of the senior management, which explains the way in which risks need to be systematically identified, assessed, quantified, managed, and monitored.

The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency risk and interest rate risk) and operational risk. The following is a description of the Bank's risk management policies and procedures in respect to those risks.

**Credit risk**

For effective credit risk management, the Bank carried out a number of measures, both in the organisational structure and in the management of business processes, which, itself, defined in the risk management policy and in the guidelines of activities of various departments. All credit products in the Bank are fully compliant with the aforementioned requirements, that are prescribed in Credit Risk management policy and other guidelines of the Bank.

The Bank has a Credit Risk Department, which takes responsibility to identify and manage risks in a timely manner. The functions of that department also includes determination of the risk policy at the Bank and ensuring its full compliance, permanent monitoring the quality of the loan portfolio and monitoring the bank's prudential ratios.

According to the Bank's policy, the following procedures are applied systematically:

- The principle of dividing a portfolio into segments is the maximum homogeneity of the borrower's default in the segment.
- The bank-lending direction is divided into corporate, SME and retail business departments. The criterion for separation is volume of the credit limits, the volume of customer and source of income. The process of customer segmentation is performed by the specialized employees in order to keep maximum level of suitability between segment requirements and customer profile. In corporate banking, responsibilities of sales and analysis are separated from each other.
- Credit limits for potential customers are approved only based on their insolvency.
- To ensure maximum protection of credit risk, all loan applications are reviewed by the Credit Risk Division, which, itself, develops recommendations for the Credit Committee.

**Financial risks**

Financial risk management policy reflects the risk profile, scale of operations and development plans of the Bank. Financial Risk and Portfolio Analysis department is responsible to manage the financial risks using this financial (currency, interest rate, liquidity, etc.) risk management policies. The main objectives of this policy are to minimize the losses that may arise in various market conditions, also to ensure the existence of sufficient funds to keep liquidity level at the safe layer. One of the main risk management tools is the limits set by the financial counterparty (financial institutes), countries, currency position, value at risk (the "VaR") by foreign currencies, currency revaluation, liquidity and the Interest rate gaps, which determines the size of risk acceptable to the Bank. Reports regarding the limit usage are submitted to the Assets and Liabilities Committee monthly. In case of their violation, risk reduction activities are taking place.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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Market risk management is regulated by the relevant policies of the Bank where special focus is on currency and interest rate risks. Market risk management policies are coherent with the policy and requirements of the Parent and regulatory body.

### Currency risk

The Treasury is the key department for managing the early signs of currency risks, and the Financial Risk and Portfolio Analysis Department is performing permanent monitoring of risks and controls limits. The report of the Asset and Liability Management Committee is submitted on monthly basis using currency positions and limits. In case of their violation, the Committee reviews and takes into account various risk reduction approaches.

In order to manage currency risk, the following limits are defined by the end of 2022: in foreign currencies (USD, EUR) open currency position should not exceed USD 3,000 thousand and EUR 450 thousand, GEL 200 thousand for VaR (Value at risk) limit of position in USD, GEL 40 thousand for VaR limit of position in EUR, GEL 240 thousand for VaR limit of total OCP, GEL 290 000 for Stop loss limit;

### Interest rate risk

Financial Risk and Portfolio Analysis Department uses sensitivity gap analysis to assess the interest risk. In addition, the gap analysis sets a limit in relation to the planned net interest income. This information is submitted to the ALMC on a monthly basis. The ALMC set limits at least once a year.

### Operational risk

Operational risk management (ORM) is an integral part of the day-to-day operations of the Bank. Financial Risk and Portfolio Analysis Department regularly monitors operational risks in order to avoid them, or to perform activities for hedging or reducing the risk level in accordance with their recommendations. Following to the mentioned steps regular assessment and analysis of risks are performed for the products and policies, which drives possible updates and adjustments within existing recommendations or even establishing new recommendations and policies.

To manage operational risks, annual limits, acceptable for the Bank, are set once a year, in accordance with the structural units for net losses. In addition, each year, the staff rights matrices are prepared for the departments and the software rights matrices are assessed and approved by the Information Security Committee. Besides, the following tools are used to determine the effectiveness of risk control and potential problems: operating loss databases, risk assessment of new products / processes (ORAP), Risk Control Self-Assessment (RCSA), Business Continuity Plan Testing, etc.

### Principal risks and uncertainties

Risk management is a critical pillar of the Bank's strategy. To perform it effectively, it is essential to identify emerging risks and uncertainties. The principal risks that could adversely impact on the Bank's performance, financial condition and prospects are presented below.

**MANAGEMENT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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*1. The Bank is exposed to regulatory risk*

Financial institutions are highly regulated and face regulatory risk. The regulations and various terms of funding and other arrangements require compliance with certain capital adequacy and other ratios. The local regulator, the NBG, has introduced a capital adequacy framework, which divides the current capital requirements across Pillar 1 and Pillar 2 buffers. Additionally, the NBG can increase the prudential requirements across the whole sector as well as for specific institutions within it. Therefore, the Bank's profitability and performance may be compromised by an increased regulatory burden, including higher capital requirements.

*Risk mitigation*

Financial analysis department calculates the regulatory ratios. The compliance with capital adequacy ratios set by the NBG is regularly monitored with the Bank's report prepared in accordance with the NBG accounting rules by the risk management bodies. The Bank has also developed a recovery plan, which has been elaborated according to NBG regulation, that includes stress scenario of negative impact on loan portfolio quality and capital adequacy and covers detailed measures to overcome it.

The Bank's capitalisation as of December 31, 2022 stood at 12.94% and 12.94% against the regulatory minimum requirement of 6.75% and 9.0% for Tier 1 and Total Tier 1 capital, respectively. The ratios are above the respective regulatory minimums.

Additionally, the Bank regularly publishes the information provided within Pillar 3 disclosure report, prepared in accordance with requirements of decree N92/04 of the governance of the NBG on "Disclosure requirements for commercial banks within Pillar 3".

*2. The Bank is exposed to concentration risk and credit risk*

Despite positive trends, the Bank still has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and high impairment charges. The exposure to the ten largest borrowers stands at 13.2% of total loan portfolio. It is also subject to cyclicity of certain economic sectors. This exposes the Bank to the increased cost of credit risk and impairment charges, if a single large borrower defaults or a material concentration of smaller borrowers' default. The exposure to the 20 largest borrowers stands at 20.5% of the total loan portfolio.

*Risk mitigation*

The Credit Committees continuously perform the credit quality reviews in order to provide early identification of possible changes in the creditworthiness of the Bank's customers, potential losses and corrective actions needed to reduce the credit risk.

The Bank also manages credit risks by setting industry-specific limits, determining the risk position of a borrower / group of borrowers, permanent monitoring of delinquent loans and formation of coherent reserves to strengthen bank to face potential losses. The Bank also has a credit rating system for business loans, which reflects the level of credit risk of clients.

**MANAGEMENT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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*3. Liquidity risk is inherent in the Bank's operations*

Liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access, a particular source of funding.

*Risk mitigation*

To assess liquidity risk, the Financial Risk and Portfolio Analysis Department measures and analyses the level of use of limits set by the internal policy for short-term, medium-term, and long-term gaps, in case of their violation, informs the -ALMC, which, makes a decision to ensure sufficient liquidity. Limits are determined in accordance with the periods in relation to the cumulative gap of liquidity to total assets. Besides, other liquidity indicators (LCR, NSFR, early warning, liquid assets to liabilities, loans to assets, average liquidity) are introduced and monitored. The Bank has developed a contingency plan to manage a liquidity crisis situation, which provides an action plan for various crises. There is also a recovery plan in place, which was elaborated according to NBG regulation, that includes liquidity stress scenario and recovery measures for that situation.

Throughout 2022, the Bank was in compliance with the risk appetite limits, including for liquidity. As of December 31, 2022, the liquidity coverage ratio stood at 181%(GEL)/221% (FXD)/206% (total) with the corresponding regulatory requirements 75% (GEL)/100% (FXD)/100% (Total), and NSFR stood at 112.5% with regulatory requirement 100%.

**COVID 19 and its impact**

It should be mentioned, that since the outbreak of Covid-19, NBG weakened regulatory pressure on banks, which is still reflected on Capital requirements:

- Capital Conservation buffer reduced from 2.5% to 0%
- Currency induced credit risk (CICR) weighting reduced from 75% to 25%

However, CICR buffer will be restored as of beginning of 2023 and the conservation buffer by 1 January 2024. The Bank is actively working to diversify the sources of financing. Overall, the bank has managed to implement all regulatory and internal requirements.

The Bank is well-positioned with strong capital, funding and liquidity resources and it aims to ensure that this remains the case. The Bank also continues to work with Government of Georgia and NBG to take appropriate actions to manage this process.

**Capital risk management**

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The management and shareholder have the intention to further develop the Bank and the Bank's management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy and based on historical experience that short-term obligations will be refinanced in the normal course of business.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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The adequacy of the Bank's capital is monitored using the ratios established by the NBG in supervising the Bank. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the Bank's standalone reports prepared in accordance with the NBG accounting rules.

According to the NBG regulations, commercial banks have to:

a) Hold the minimum level of Regulatory Capital according to the following schedule:

- 50,000 thousand GEL as at December 31, 2021
- 50,000 thousand GEL as at December 31, 2022

b) Maintain ratios of Common Equity Tier 1 Capital, Tier 1 Capital and Regulatory Capital to the risk-weighted assets at or above the prescribed minimum of levels throughout the reporting period.

The Bank had to maintain minimum Capital Requirements in accordance with the Regulation on capital Adequacy Requirements for Commercial Banks, compatible with framework established by Basel committee of banking supervision.

Pillar 1 minimum requirements are as follows:

- CET 1 – 4.5%
- Tier 1 Capital – 6%
- Regulatory Capital adequacy ratio - 8%

Pre-pandemic Pillar 1 and Pillar 2 buffers introduced by the NBG are as follows:

1. Pillar 1 buffers include:

- The Capital Conservation ("CC") buffer that is effective from December 31, 2018;
- The Systemic Risk ("SR") buffer applied to systematically important banks from 2018 and gradually increasing year over year.
- The Countercyclical Capital ("CCC") buffer is set at 0%.

Adjustments to the Pillar 1 buffers are at NBG's discretion.

2. Pillar 2 buffers include:

- The Currency Induced Credit Risk ("CICR") buffer that is effective from December 31, 2017 for un-hedged FX loans denominated in foreign currencies;
- The Concentration Risk ("CR") buffer that will be introduced for sectoral and single borrower exposure;
- The Net Stress ("NS") buffer that will be introduced based on stress testing results provided by the Bank;
- Net General Risk-assessment Program ("GRAPE") buffer defined by the NBG and applied based on the bank's specific risks.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

### *Supervision plan adoption – COVID 19*

By the end of Q1 2020 National Bank of Georgia established supervision plan in order to minimize negative impact of economic shocks driven by COVID 19 pandemic.

Purpose of the actions taken according to supervision plan will allow banks to utilize capital and liquidity buffers during the stress in order to neutralize potential losses and continue the process of normal business and lending activities without interruptions.

According to the supervisory plan, the following changes has been made:

- Capital conservation buffer reduced to from 2.5% to 0% until 01.01.2024;
- For HHI and Grape buffers, the transitional schedule of buffer allocation rates between CET 1, Tier 1 postponed and remained at the pre-pandemic level until 31.03.2021; 15% for CET 1, instead of 30% and 20% for Tier 1 instead of 40%, for regulatory capital buffers allocation rate, remained untouched at 100%;
- CICR buffer requirement reduced by 2/3 which will start to restore from 01.01.2023;

Financial Stability Committee deemed it appropriate to begin the recovery of capital buffers released in March, 2020. January 1, 2022 is set as the starting date for the recovery of capital buffer requirements and banks are given 2 years to meet restored capital requirements. Banks will be required to restore currency induced credit risk (CICR) buffer by January 1, 2023 and capital conservation buffer requirement by January 1, 2024.

The summary of the Capital Adequacy ratio requirements set under the Capital Adequacy Framework effective as at December 31, 2022 and 2021 are as follows:

Capital to the Risk-Weighted Assets		Pillar 1			Pillar 2				December 31, 2022
	Requirements	Pillar 1 buffers			Pillar 2 buffers				Total minimum requirements
		CC	SR	CCC	CICR	CR	NS	GRAPE	
Common Equity Tier 1 Capital ratio	4.50%	0%	0%	0%	0.49%	0.27%	0.00%	1.49%	6.75%
Tier 1 Capital ratio	6.00%	0%	n/a	n/a	0.65%	0.36%	0.00%	1.98%	9.00%
Total Regulatory Capital ratio	8.00%	0%	n/a	n/a	0.87%	0.61%	0.00%	3.3%	12.78%

Capital to the Risk-Weighted Assets		Pillar 1			Pillar 2				December 31, 2021
	Requirements	Pillar 1 buffers			Pillar 2 buffers				Total minimum requirements
		CC	SR	CCC	CICR	CR	NS	GRAPE	
Common Equity Tier 1 Capital ratio	4.50%	0%	0%	0%	0.57%	0.24%	0.00%	0.93%	6.24%
Tier 1 Capital ratio	6.00%	0%	n/a	n/a	0.77%	0.32%	0.00%	1.02%	8.33%
Total Regulatory Capital ratio	8.00%	0%	n/a	n/a	1.02%	0.80%	0.00%	3.10%	12.92%

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

As at December 31, 2022 and 2021 Capital Adequacy Ratios based on the Bank's reports prepared in accordance with the NBG accounting rules and Capital Adequacy Framework effective as at December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Share capital	76,000	76,000
Revaluation reserve	1,864	1,959
Retained earnings for capital adequacy	48,904	39,052
Deductions from Common Equity Tier 1 Capital	(5,183)	(6,457)
<b>Common Equity Tier 1 Capital</b>	<b>119,720</b>	<b>117,010</b>
Tier 1 Capital	119,720	117,010
Convertible subordinated debts	27,020	30,976
General loan loss provisions (up to 1.25 % of risk-weighted assets)	10,450	10,970
<b>Total regulatory capital</b>	<b>157,191</b>	<b>152,499</b>
<b>Risk weighted assets</b>	<b>924,978</b>	<b>931,551</b>
Common Equity Tier 1 Capital Adequacy Ratio	12.94%	11.87%
Tier 1 Capital Adequacy Ratio	12.94%	11.87%
Total regulatory capital adequacy Ratio	16.99%	16.37%

As at December 31, 2022 and 2021, in the computation of total regulatory capital for capital adequacy purposes the Bank included the subordinated deposit received, limited to 100% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2022 and 2021, in the computation of total regulatory capital for capital adequacy purposes the Bank included the general provisions, limited to 1.25% of risk weighted assets. General provisions for capital adequacy purposes are calculated based on NBG requirements.

As at December 31, 2022 and 2021, the Bank had complied in full with all its externally imposed capital requirements.

From 1 January 2023, the calculation of regulatory capital requirements will be based on international financial reporting standards.

**Human resource management**

The management of the Bank promotes high ethical standards, values, and respects human rights, encourages its employees to act with integrity and responsibility towards each other and customers, partners, and community. The Bank has implemented a set of internal policies, procedures and closely monitors their execution.

Due to the spread of COVID-19, a majority of back-office staff transferred to distance work regime. They were provided with technical support whilst ensuring cyber security measures. The front office continued its activity in a normal way in accordance with the government regulations regarding COVID-19 to protect the Bank's staff and client's health.

**Code of Ethics and Code of Conduct** - regulate employee rights and responsibilities and set appropriate relationship norms and principles. The Bank's employees are expected to act honestly and fairly at all times and to comply with both the spirit and intent of all laws. All employees are responsible for ensuring that the working environment is free of any form of harassment, discrimination (including gender, age, physical disability or religious affiliations) or inappropriate behaviour.

Compliance with the Bank's Code of Ethics and Code of Conduct is monitored by the Human Resource Department. Periodic audits are also conducted by the Internal Audit Department in order to identify any breach or misconduct in relation to compliance with these policies.

The labour organisation system of the personnel is based on the labour legislation of Georgia, the Law on Commercial Banks Activities, and other regulatory acts of the National Bank of Georgia.

The main areas of Personnel Policy are as follows:

- Improvement of the organisational structure, human resource planning;
- Selection and placement of employees;
- Staff training and development;
- Management of the competence and motivation of workers, job compensation;
- Formation of corporate culture and social support of the employees.

Transparent and flexible incentive system operates in the form of monthly incentive bonuses in order to increase the efficiency of the staff in achieving common goals at the Bank. This bonus depends on the fulfilment of plans in terms of net profit. Performance-based bonuses for SME and retail front office employees were awarded monthly and back-office employees were awarded for three quarters, which was in accordance with the Bank's financial results. Employees including middle management were awarded with annual bonus based on bank financial performance for the year 2021.

In accordance with the Bank's Internal Policy, employees will be provided with the financial assistance during pregnancy, childbirth and childcare.



## **JOINT STOCK COMPANY HALYK BANK GEORGIA**

### **MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022**

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In 2022, with the involvement of various structural divisions of the bank, employees of the Bank's retail network operators and operational cash services actively participated in improving the quality of service and developing sales skills.

The Bank employees participated in various individual educational events, forums and conferences organised by various companies, including the NBG and the Parent.

#### **Corporate responsibility**

During the year 2022, the Bank participated in the following promotions:

- Association "Catharsis" - a non-governmental organisation supporting socially vulnerable citizens - financing a free lunch for several days in February, in April and in December (Zestafoni, Tbilisi);

**On behalf of the Management:**

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**Konstantine Gordeziani  
Deputy General Director**

March 2, 2023  
Tbilisi, Georgia

## JOINT STOCK COMPANY HALYK BANK GEORGIA

### MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2022

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On behalf of the Management:

  
Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia



## INDEPENDENT AUDITOR'S REPORT

### To the Shareholders and the Supervisory Board of Joint Stock Company Halyk Bank Georgia:

#### Opinion

We have audited the financial statements of Joint Stock Company Halyk Bank Georgia (the "Bank"), which comprise the statement of financial position as at December 31, 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### Basis for Opinion

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

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## Key Audit Matters

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### Why the matter was determined to be a key audit matter

#### *Collective assessment of the expected credit losses on loans to customers*

As disclosed in Note 8 to the financial statements, the gross value of loans and advances to customers (“loans”) amounted to GEL 660,528 thousand including GEL 535,460 thousand subject to collective impairment assessment, which comprise 81% of total gross loans with related allowances for expected credit losses of GEL 8,942 thousand as at 31 December 2022.

Depending on the significance of loans, the management determines the expected credit losses (“ECL”) on a collective or individual basis.

Due to the significance and subjectivity of judgements used by management of the Bank and the volume of loans assessed on a collective basis, we identified the collective assessment of expected credit losses as a key audit matter. In particular, we focused on the underlying information used in the ECL on loans assessed on a collective basis, which may include errors. The errors in the underlying information used in the ECL might affect the risk factors such as probability of default (PD), loss given default data (LGD), exposure at default (EAD), migration matrix based on statistics of defaults and loss rates.

#### *Individual assessment of the expected credit losses on loans to customers*

As at 31 December 2022, the Bank’s gross loans assessed for impairment on an individual basis amounted to GEL 123,803

### How the matter was addressed in the audit

We obtained our understanding of the processes and relevant control procedures over ECL provisioning, in particular, identification of significant increase in credit risk (“SICR” or “stage 2”) and credit-impaired loans (“stage 3”), and the ECL modelling, and whether their stages are properly identified in the ECL calculation model.

We also assessed the Group’s impairment methodology for compliance with the requirements of IFRS 9.

For loans collectively assessed for impairment, with the assistance of internal credit risk specialists, we assessed the integrity and mathematical accuracy of the ECL models.

We challenged the reasonableness of the methodology on collective loan loss provisioning and its compliance with IFRS 9 Financial Instruments requirements.

We tested, on a sample basis, the accuracy and completeness of input data in the models, including principle balances, allocation of loans by days in arrears, and checked other model’s parameters, such as delinquency of interest or principle, including off-balances, restructuring events, maximum overdue days per client and collateral values.

For individually assessed loans we analysed the appropriateness of loans’ staging by selecting a sample from these loans and

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thousand, which accounts for 18.8% of total gross loans. The related ECL comprised GEL 9,196 thousand.

The appropriate identification of stage of impairment for individually assessed loans require considerable judgement in relation to the quantitative and qualitative information.

Individual assessment of ECL for individually significant loans involves an analysis of financial performance of the borrower, overdue of interest or principal or restructuring events, including determining whether a significant increase in credit risk or credit impairing events have occurred on loans since their initial recognition.

Additionally, for significant loans at stage 2 and 3 the analysis involves estimation of future cash flows under the different scenarios weighted for their probabilities. Information used for such analysis includes expected value of collateral, costs and time required to sell the collateral.

Allowance for ECL is determined to be a key audit matter due to the significance of Loans and advances to customers' balances and the degree of judgement and estimation uncertainty, as discussed in Note 5, 8 and Note 28 to the financial statements.

testing whether conditions, including existence of overdue days, restructuring and current financial performance of the borrower for classification into respective stages were met.

On a sample basis, we re-performed calculations of allowances for ECL for individually significant loans in stage 2 and 3, including reviewing the bank's documented credit assessment of the borrowers, and challenging assumptions underlying the ECL calculation, including future cash flow projections and the market valuation of collateral, agreeing to available market and internal information.

We evaluated the adequacy and completeness of disclosures in the consolidated financial statements relating to the loans to customers in accordance with IFRS requirements

## **Other Information**

Management is responsible for the other information. The other information comprises the management report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report, in this regard. Responsibilities of Management and Those Charged with Governance for the Financial Statements

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in

our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended December 31, 2022 is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended December 31, 2022 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended December 31, 2022 is consistent, in all material respects, with the financial statements for the year ended December 31, 2022.

The engagement partner on the audit resulting in this independent auditor's report is Nanitashvili Shota.

Shota Nanitashvili  
on behalf of Deloitte and Touche LLC

Tbilisi, Georgia  
March 2, 2023



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Notes	December 31, 2022	December 31, 2021
<b>ASSETS:</b>			
Cash and cash equivalents	6	132,273	116,169
Mandatory cash balance with the NBG	7	129,648	100,835
Due from financial institutions		1,115	815
Loans to customers	8	642,391	725,031
Investments in equity instruments measured at fair value through other comprehensive income		54	54
Investments in debt instruments measured at amortised cost	9	17,323	17,309
Assets classified as held for sale	10	8,346	-
Property and equipment*	11	16,770	17,007
Intangible assets		5,184	4,499
Current income tax asset		80	21
Other assets	12	31,023	21,243
<b>TOTAL ASSETS</b>		<b>984,207</b>	<b>1,002,983</b>
<b>LIABILITIES:</b>			
Due to financial institutions	13	429,565	432,978
Deposits by customers	14	331,888	385,266
Debt securities issued	15	23,606	-
Lease liability*	16	2,252	2,206
Provisions	21	191	366
Income Tax Liability		-	2,115
Deferred income tax liabilities	25	3,531	837
Subordinated debt	17	27,091	31,057
Other liabilities	18	10,514	6,973
<b>TOTAL LIABILITIES</b>		<b>828,638</b>	<b>861,798</b>
<b>EQUITY:</b>			
Share capital	19	76,000	76,000
Revaluation reserve		1,864	1,960
Retained earnings		77,705	63,225
<b>TOTAL EQUITY</b>		<b>155,569</b>	<b>141,185</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>984,207</b>	<b>1,002,983</b>

\* Rights-of-use assets included in property and equipment as disclosed in Note 11.

On behalf of the Management Board:

\_\_\_\_\_  
Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia

\_\_\_\_\_  
Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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On behalf of the Management Board:

Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia



Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Notes	2022	2021
Interest income calculated using the effective interest rate method	20	62,354	51,801
Other interest income	20	2,871	2,214
Interest expense	20	(30,171)	(21,993)
<b>Net interest income before impairment losses</b>		<b>35,054</b>	<b>32,022</b>
- Recovery/(loss) of the allowance for expected credit losses on interest bearing assets	21	4,380	(869)
<b>Net interest income</b>		<b>39,434</b>	<b>31,153</b>
Fee and commission income	22	2,455	2,592
Fee and commission expense	22	(2,645)	(2,419)
Modification loss on loans to customers		(278)	(254)
Net gain on financial assets at fair value through profit or loss		2,623	2,131
Net loss on foreign exchange operations	23	(309)	(800)
Impairment losses on non-financial assets	21	(1,716)	-
Allowance for credit losses on non-interest-bearing assets	21	(59)	(70)
Recovery of provision for other assets/liabilities	21	174	488
<b>Net non-interest income</b>		<b>245</b>	<b>1,668</b>
<b>Operating income</b>		<b>39,679</b>	<b>32,821</b>
Other income		81	139
Operating expenses	24	(20,527)	(17,756)
<b>Profit before income tax</b>		<b>19,233</b>	<b>15,204</b>
Income tax (expense)/benefit	25	(4,775)	205
<b>Profit for the year</b>		<b>14,458</b>	<b>15,409</b>
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of property	11	(85)	-
Income tax related to revaluation of property		12	-
<b>Other comprehensive loss, net of income tax</b>		<b>(73)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>14,385</b>	<b>15,409</b>
<b>Basic earnings per share</b>		<b>190</b>	<b>203</b>

On behalf of the Management Board:

\_\_\_\_\_  
Konstantine Gordeziani  
Deputy General Director

\_\_\_\_\_  
Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

March 2, 2023  
Tbilisi, Georgia

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# JOINT STOCK COMPANY HALYK BANK GEORGIA

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<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of property	11	(85)	-
Income tax related to revaluation of property		12	-
<b>Other comprehensive loss, net of income tax</b>		<b>(73)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>14,385</b>	<b>15,409</b>
<b>Basic earnings per share</b>		<b>190</b>	<b>203</b>

On behalf of the Management Board:

Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia



Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
<b>January 1, 2021</b>		<b>76,000</b>	<b>1,983</b>	<b>47,793</b>	<b>125,776</b>
Profit for the period		-	-	15,409	15,409
Release of revaluation reserve due to depreciation of previously revalued assets		-	(23)	23	-
<b>December 31, 2021</b>		<b>76,000</b>	<b>1,960</b>	<b>63,225</b>	<b>141,185</b>
Profit for the period		-	-	14,457	14,457
Release of revaluation reserve due to depreciation of previously revalued assets		-	(23)	23	-
Other comprehensive loss, net of income tax		-	(73)	-	(73)
<b>December 31, 2022</b>		<b>76,000</b>	<b>1,864</b>	<b>77,705</b>	<b>155,569</b>

On behalf of the Management Board:

\_\_\_\_\_  
Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia

\_\_\_\_\_  
Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia


The notes on pages 25-88 form an integral part of these financial statements.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

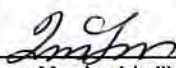
	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
January 1, 2021		76,000	1,983	47,793	125,776
Profit for the period		-	-	15,409	15,409
Release of revaluation reserve due to depreciation of previously revalued assets		-	(23)	23	-
December 31, 2021		76,000	1,960	63,225	141,185
Profit for the period		-	-	14,457	14,457
Release of revaluation reserve due to depreciation of previously revalued assets		-	(23)	23	-
Other comprehensive loss, net of income tax		-	(73)	-	(73)
December 31, 2022		76,000	1,864	77,705	155,569

On behalf of the Management Board:

  
Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.

  
Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia





# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Note	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest Income received		67,151	55,738
Interest expense paid		(26,609)	(17,563)
Foreign exchange gain realized		5,350	1,956
Fee and commission income received		2,453	2,592
Fee and commission expense paid		(2,645)	(2,419)
Other income received		81	139
Operating expenses paid		(17,474)	(13,940)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>28,307</b>	<b>26,503</b>
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Mandatory cash balance with the NBG		(43,510)	(59,808)
Due from financial institutions		(398)	1
Loans to customers		14,820	(248,817)
Other assets		(8,434)	(1,613)
(Decrease)/increase in operating liabilities:			
Due to financial institutions		3,940	(1)
Deposits by customers		(33,754)	203,177
Other liabilities		3,843	2,823
<b>Cash outflow from operations</b>		<b>(35,186)</b>	<b>(77,735)</b>
Income taxes paid		(4,230)	-
<b>Net cash outflow from operating activities</b>		<b>(39,416)</b>	<b>(77,735)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	11	(820)	(1,601)
Proceeds from disposal of property and equipment		1	29
Purchase of intangible assets		(1,340)	(605)
<b>Net cash outflow from investing activities</b>		<b>(2,159)</b>	<b>(2,177)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans from the parent*	13	138,311	335,890
Repayment of loans from the parent*	13	(142,239)	(91,371)
Proceeds from the deposits from parent*	13	157,712	79,158
Repayment of deposits from parent*	13	(91,605)	(167,304)
Proceeds from debt securities		10,522	-
Repayment of lease liabilities	15	(975)	(1,102)
<b>Net cash inflow from financing activities</b>		<b>71,726</b>	<b>155,271</b>
Effect of exchange rate changes on cash and cash equivalents		(14,047)	(2,224)
<b>Net increase in cash and cash equivalents</b>		<b>16,104</b>	<b>73,135</b>
<b>Cash and cash equivalents, beginning of the year</b>	6	<b>116,169</b>	<b>43,032</b>
<b>Cash and cash equivalents, end of the year</b>	6	<b>132,273</b>	<b>116,169</b>

\*Included in due to financial institutions, presented in the statement of the financial position.

On behalf of the Management Board:

Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia

Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Note	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest Income received		67,151	55,738
Interest expense paid		(26,609)	(17,563)
Foreign exchange gain realized		5,350	1,956
Fee and commission income received		2,453	2,592
Fee and commission expense paid		(2,645)	(2,419)
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Changes in operating assets and liabilities:			
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Cash and cash equivalents, beginning of the year	6	116,169	43,032
Cash and cash equivalents, end of the year	6	132,273	116,169

\*Included in due to financial institutions, presented in the statement of the financial position.

On behalf of the Management Board:

Konstantine Gordeziani  
Deputy General Director

March 2, 2023  
Tbilisi, Georgia



Gulnara Marshanishvili  
Chief Accountant

March 2, 2023  
Tbilisi, Georgia

The notes on pages 25-88 form an integral part of these financial statements.



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### 1. Organisation

Halyk Bank Georgia (the “Bank”) is a joint stock company, which was incorporated in Georgia on January 29, 2008. The Bank is regulated by the National Bank of Georgia (the “NBG”) and conducts its business under general license number 0110246. The Bank’s primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees and deposit taking.

The registered office of the Bank is located on 74 Kostava Street, Tbilisi, Georgia. As at December 31, 2022 and 2021 the Bank had 9 and 8 branches/service points respectively, operating in Georgia.

As at December 31, 2022 and 2021 the following shareholders owned the issued shares of the Bank:

	December 31, 2022	December 31, 2021
<b>First level shareholder:</b>		
JSC Halyk Bank Kazakhstan	100%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Main shareholders of JSC Halyk Bank Kazakhstan are JSC Holding ALMEX and JSC Unified Accumulated Pension Fund. JSC Halyk Bank Kazakhstan is ultimately controlled by Timur Kulibayev and Dinara Kulibayeva.

These financial statements were authorised for issue on March 2, 2023 by the Management Board.

### 2. Basis of preparation

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. In making this assumption, the management considered the Bank’s financial position, current intentions, profitability of operations and access to financial resources.

The parent, JSC Halyk Bank Kazakhstan demonstrates its commitment to continue the financing the Bank’s operations. The commitment is evidenced by the provision of financing in the form of placed deposits and issued loans to the Bank during 2023 as well as the receipt of comfort letter dated January 19, 2023 on which the parent expresses the readiness to support the operations for the Bank.

The Bank’s management believes that based on current forecasts and measures, the Bank has enough funds to continue its activities in the foreseeable future.

These financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank is registered in Georgia and maintains its accounting records in accordance with Georgian laws and regulations.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 28.

### **Functional currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”). The functional currency of the Bank is the Georgian Lari (“GEL”). The presentation currency of the financial statements of the Bank is the GEL. All values are rounded to the nearest thousand Lari, except when otherwise indicated.

### **Offset**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies adopted are set out in Note 4.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### 3. Application of new and revised international financial reporting standards (IFRSs)

In the current year, the Bank has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Annual Improvements to IFRS Standards 2018-2020 Cycle

*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture.*

*IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter. The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.*

*IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.*

*IAS 41 Agriculture - Taxation in fair value measurements. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.*

The amendments are not relevant to the Bank given that it does not apply hedge accounting to its benchmark interest rate exposures. Respectively, the application of the amendments does not impact the Bank's accounting for the year ended December 31, 2022.

#### **New and revised Standards in issue but not yet effective**

At the date of authorization of these financial statements, the Bank has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

Amendments to IFRS 17

*IFRS 17*

Amendments to IAS 1

*Classification of liabilities as current or non-current*

Amendments to IAS 1

*Classification of Liabilities as Current or Non-current — Deferral of Effective Date*

Amendments to IFRS 4

*Extension of the Temporary Exemption from Applying IFRS 9*

Amendments to IAS 1 and IFRS Practice Statement 2

*Disclosure of accounting policies*

Amendments to IAS 12

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Amendments to IAS 8

*Definition of accounting estimates*

Amendments to IFRS 17

*Initial Application of IFRS 17 and IFRS 9 — Comparative Information*

Amendment to IFRS 16

*Lease Liability in a Sale and Leaseback*

Amendments to IAS 1

*Non-current Liabilities with Covenants*

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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### 4. Significant accounting policies

The principal accounting policies are set out below:

#### **Recognition of interest income and expense**

Interest income and expense are recognised in profit or loss using the effective interest method by applying the effective interest rate.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets. For those financial assets, the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Bank applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

#### **Recognition of fee and commission income**

Financial instrument origination fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the financial instrument.

Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in profit or loss on expiry. Loan servicing fees are recognised as revenue as the services are provided.

All other fee and commissions are recognised when services are provided.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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### Financial instruments

#### *Initial recognition of financial instruments*

Financial assets and financial liabilities are recognised in the Bank's financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank accounts for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

#### *Financial assets*

##### *Classification and subsequent measurement*

On initial recognition, a financial asset is classified into one of the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Georgian Lari)

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- 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.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The Bank elected to present subsequent changes of fair value in its investment in "United Billing Center" in OCI.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank's financial assets classified into the measurement categories are as following:

<b>Financial assets</b>	<b>Business model</b>	<b>SPPI</b>	<b>Measurement category</b>
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Mandatory cash balance with the NBG	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Due from financial institutions	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Investments in debt instruments	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Investments in equity instruments	Other business model	Cash flows are not solely payments of principal and interest	FVOCI
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost
Other receivables	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortised Cost

### Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL, because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

### ***Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with National Bank of Georgia and highly liquid financial assets with original maturities of three months or less from the date of initial recognition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

### ***Mandatory cash balance with the NBG***

Mandatory cash balances with the NBG are carried at amortised cost and represent mandatory reserve deposits that are not available to finance the Bank's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

### ***Due from financial institutions***

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with original maturity of more than three months. Amounts due from financial institutions are carried at amortised cost.

### ***Loans to customers***

Loans to customers are initially measured at fair value plus incremental transaction costs and subsequently at their amortised cost using the effective interest method.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### ***Investments in debt instruments***

Investments in debt instruments include investments in certificate of deposits issued by National Bank of Georgia. These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

### ***Investments in equity instruments***

The Bank elected to present in OCI changes in the fair value of investment in equity instrument that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss.

Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

### ***Derivative financial instruments***

Derivative financial instruments included in financial assets at fair value through profit or loss or loss in the financial statements comprise foreign currency forward contracts.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in profit or loss.

### ***Reclassification***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

### ***Impairment***

The Bank recognises loss allowances for expected credit losses (ECLs) on the financial assets that are not measured at FVTPL.

ECLs are required to be measured through a loss allowance at an amount equal to:



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

More information on measurement of ECLs is provided in Note 27 including details on how instruments are grouped when they are assessed on a collective basis.

### Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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The definition of default (see below) includes unlikelihood to pay indicators and a back-stop if amounts are overdue for 90 days or more.

### Purchased or originated credit-impaired financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

### Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

### Significant increase in credit risk

The Bank monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets that are subject to impairment for significant increase in credit risk.

See Note 28 for more details about significant increase in credit risk.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value.
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

### ***Modification and derecognition of financial assets***

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan terms is modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

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will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Bank's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forbore loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset.

### ***Write-off***

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### ***Financial guarantees and loan commitments***

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments: the Bank recognises a loss allowance in accordance with IFRS 9.

### ***Financial liabilities and equity***

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### **Financial liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

The Bank derecognises a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

### ***Due to financial institutions, deposits by customers and subordinated debt***

Financial liabilities include due to financial institutions, deposits by customers and subordinated debt that are the Bank's sources of debt funding. Financial liabilities are initially measured at fair value, net of incremental direct transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### **Debt securities issued**

Debt securities issued represent bonds issued by the Bank, which are accounted with amortised cost. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

### ***Leases***

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

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- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented in Property and Equipment line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has used this practical expedient.

The Bank is represented as a Lessor of one of the repossessed properties. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### ***Repossessed assets***

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell. The Bank applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

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### *Property and equipment*

Buildings held for use in supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such premises is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such premises is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve for premises relating to a previous revaluation of that asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Such properties are classified to the appropriate categories of premises and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The Banks's buildings were appraised by an independent appraiser in 2022 using market based approach. The valuation results were reflected in these financial statements.

Depreciation on revalued premises is recognised in profit or loss. On the subsequent sale or retirement of revalued premises, the attributable revaluation surplus remaining in the revaluation reserve for premises is transferred directly to retained earnings. Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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Buildings and other real estate	1%-2.17%
Furniture and fixtures	10%-15%
Computer and communication equipment	10%-33.33%
Vehicles	10%-33.33%
Leasehold improvement	20%-50%
Other	15%

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An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognised on a straight-line basis over their estimated useful lives from 2 to 15 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

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If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Assets held for sale**

Non-current assets and the liabilities directly associated with non-current assets are classified as held for sale (“disposal group”) if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in profit or loss. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in profit or loss in relation to that specific asset.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws and rates that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### **Current and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

On December 2022, the Parliament of Georgia cancelled previously announced transition to “Estonian model” for banking sector. The main difference and idea of the Estonian model is that dividends issued from 2023 profits and subsequent periods will no longer be taxed. According to this model income tax is assessed on monthly basis and only when profits are distributed. Also, from 2023 statutory tax rate of corporate taxation changed from 15% to 20%. In addition, with effect from 2023, National Bank of Georgia adopted Transition of commercial banks’ supervisory reports to international Financial Reporting Standards (IFRS).

From January 2023, commercial banks are expected to comply with supervisory regulations with IFRS - based numbers. Which also will result a change in the tax base for 2023.

### **Operating taxes**

Georgia also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the statement of profit or loss

### **Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### 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.

### Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2022	December 31, 2021
GEL/1 US Dollar	2.7020	3.0976
GEL/1 Euro	2.8844	3.5040

### Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

### Equity reserves

The reserve recorded in equity (other comprehensive income) on the Bank's statement of financial position includes property revaluation reserve which comprises revaluation reserve of land and building.

## 5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Banks's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### Loss allowances for expected credit losses

The following are key estimations that the management have used in the process of applying the Bank's accounting policies and that have the most significant effect on the loss allowances for expected credit losses:

- **Establishing forward-looking scenarios:** When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

See Note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Judgment of Significant increase in credit risk:** As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

See Note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

- **Estimate of Probability of default:** PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

See Note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in PD.

- **Estimate of Loss Given Default:** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

See Note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 6. Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash	18,770	10,331
Balances with the NBG	83,566	54,493
Correspondent accounts and time deposits with original maturities up to 90 days	29,945	51,347
Less: allowance for expected credit losses	(8)	(2)
<b>Total cash and cash equivalents</b>	<b>132,273</b>	<b>116,169</b>

Cash and cash equivalents are non-past due financial assets as at December 31, 2022 and 2021. The allowance for expected credit losses as at December 31, 2022 and 2021 was estimated based on counterparty ratings determined by the international rating agencies.

As at December 31, 2022 and 2021 the majority of the Bank's cash in banks is with banks rated by Fitch Ratings as B (short-term rating) and BB- (long-term rating).

### 7. Mandatory cash balance with the National Bank of Georgia

Mandatory cash balance with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. Mandatory balances with the NBG is interest bearing financial asset.

	December 31, 2022	December 31, 2021
Mandatory balances with the NBG	129,649	100,836
Less: allowance for expected credit losses/impairment losses	(1)	(1)
<b>Total mandatory Balances with the NBG</b>	<b>129,648</b>	<b>100,835</b>

Mandatory balances with the NBG are non-past due financial assets as at December 31, 2022 and 2021. The allowance for expected credit losses as at December 31, 2022 and 2021 was estimated based on counterparty ratings determined by the international rating agencies.

According to Fitch, country rating for Georgia stands at BB, while outlook upgraded from Stable to Positive.

### 8. Loans to customers

Loans to customers comprise:

	December 31, 2022	December 31, 2021
Loans to customers	660,528	746,561
Less: allowance for expected credit losses	(18,137)	(21,530)
<b>Total loans to customers</b>	<b>642,391</b>	<b>725,031</b>

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

All loans to customers are measured at amortised cost. The loans to customers are classified by types based on a combination of factors (mainly the income source of the borrowers and the purpose of the loan). Loans taken by individual business owners for consumer purposes are presented in relevant categories according to the business activity types of the borrowers.

As at December 31, 2022 and 2021 loans to customers included accrued interest in the amount of GEL 7,763 thousand and GEL 9,050 thousand, respectively.

The table below summarizes carrying value of loans to customers analysed by sector:

	December 31, 2022	December 31, 2021
<b>Loans to legal entities</b>		
Trade and service	237,367	299,710
Construction	48,420	68,134
Mining and production	56,445	72,392
Agriculture	20,092	23,855
Leasing	19,501	10,962
Energy	3,443	4,616
Other sector	19,255	9,450
<b>Total loans to legal entities</b>	<b>404,523</b>	<b>489,119</b>
<b>Loans to individuals</b>		
Consumer loans	145,560	144,758
Mortgage loans	110,445	112,684
<b>Total loans to individuals</b>	<b>256,005</b>	<b>257,442</b>
<b>Gross loans to customers</b>	<b>660,528</b>	<b>746,561</b>
Less: allowance for expected credit losses	(18,137)	(21,530)
<b>Total loans to customers</b>	<b>642,391</b>	<b>725,031</b>

As at December 31, 2022 and 2021 bank holds significant risk positions towards 4 and 4 groups of clients totaling GEL 69,050 thousand and GEL 66,548 thousand, respectively, which individually exceeded 10% of bank's Tier 1 capital.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Bank:

	December 31, 2022	December 31, 2021
Loans collateralized by combined collateral*	390,201	488,263
Loans collateralized by pledge of real estate	225,477	219,772
Loans collateralized by guarantees	32,264	23,493
Loans collateralized by cash	3,026	6,389
Unsecured loans	9,560	8,644
<b>Gross loans to customers</b>	<b>660,528</b>	<b>746,561</b>
Less: allowance for expected credit losses	(18,137)	(21,530)
<b>Total loans to customers</b>	<b>642,391</b>	<b>725,031</b>

\*These loans are collateralized by combination of different kinds of collateral: real estate, vehicles, inventories, equipment, finished products and guarantees.

As at December 31, 2022 and 2021 significant amount of customers (99% of total loans to customers) is granted to companies operating in Georgia.

Analysis by credit quality of individually significant and non-significant loans to customers outstanding as at December 31, 2022 and 2021 was as follows:

As at December 31, 2022	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
<b>Collectively assessed</b>				
Not past due	503,487	(4,837)	498,650	0.96%
Overdue:				
up to 30 days	16,979	(672)	16,307	3.96%
31 to 60 days	2,001	(336)	1,665	16.79%
61 to 90 days	1,595	(300)	1,295	18.81%
91 to 180 days	4,203	(775)	3,428	18.91%
over 180 days	7,176	(2,022)	5,154	27.89%
<b>Total collectively assessed loans</b>	<b>535,441</b>	<b>(8,942)</b>	<b>526,499</b>	<b>1.67%</b>
<b>Individually significant</b>				
Not past due	85,660	(4,451)	81,209	5.20%
Overdue:				
up to 30 days	10,173	(483)	9,690	4.75%
31 to 60 days	8,715	(532)	8,183	6.10%
61 to 90 days	5,341	(144)	5,197	2.70%
91 to 180 days	6,816	(1,009)	5,807	14.80%
over 180 days	8,382	(2,576)	5,806	30.73%
<b>Total individually assessed loans</b>	<b>125,087</b>	<b>(9,195)</b>	<b>115,892</b>	<b>7.35%</b>
<b>Total loans to customers</b>	<b>660,528</b>	<b>(18,137)</b>	<b>642,391</b>	<b>2.75%</b>



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

As at December 31, 2021	Gross loans	Allowance for ECL	Net loans	ECL to gross loans
<b>Collectively assessed</b>				
Not past due	572,768	(7,294)	565,474	1.27%
Overdue:				
up to 30 days	8,148	(418)	7,730	5.13%
31 to 60 days	4,882	(621)	4,261	12.72%
61 to 90 days	1,881	(280)	1,601	14.89%
91 to 180 days	2,567	(410)	2,157	15.97%
over 180 days	8,240	(1,731)	6,509	21.01%
<b>Total collectively assessed loans</b>	<b>598,486</b>	<b>(10,754)</b>	<b>587,732</b>	<b>1.80%</b>
<b>Individually significant</b>				
Not past due	128,611	(8,953)	119,658	6.96%
Overdue:				
up to 30 days	4,197	(224)	3,973	5.34%
31 to 60 days	2,655	(263)	2,392	9.91%
over 180 days	12,612	(1,336)	11,276	10.59%
<b>Total individually assessed loans</b>	<b>148,075</b>	<b>(10,776)</b>	<b>137,299</b>	<b>7.28%</b>
<b>Total loans to customers</b>	<b>746,561</b>	<b>(21,530)</b>	<b>725,031</b>	<b>2.88%</b>

During 2022 and 2021 the Bank received non-financial asset by taking possession of collateral it held as security for loans. The amount of repossessed assets received during 2022 and 2021 is 4,956 thousand and 1,445 thousand, respectively. As at December 31, 2022 and 2021 the carrying value of the asset included in other assets as repossessed assets was GEL 18,740 thousand and GEL 15,767 thousand, respectively.

Allocation of loans to customers to expected credit loss by stages as at December 31, 2022 and December 31, 2021 are as following:

	December 31, 2022			December 31, 2021		
	Gross loans	Allowance for ECL	Net loans	Gross loans	Allowance for ECL	Net loans
<b>Stage 1- 12 month ECL</b>	509,170	(3,525)	505,644	539,750	(2,244)	<b>537,506</b>
<b>Stage 2 - Lifetime ECL – not credit- impaired:</b>						
<i>Individually assessed</i>	60,902	(2,526)	58,376	96,227	(7,148)	89,079
<i>Collectively assessed</i>	8,522	(789)	7,734	22,340	(2,400)	19,940
	<b>69,425</b>	<b>(3,315)</b>	<b>66,110</b>	<b>118,567</b>	<b>(9,548)</b>	<b>109,019</b>
<b>Stage 3 - Lifetime ECL – credit- impaired:</b>						
<i>Individually assessed</i>	60,154	(6,670)	53,484	51,848	(3,628)	48,220
<i>Collectively assessed</i>	21,780	(4,627)	17,152	36,396	(6,110)	30,286
	<b>81,934</b>	<b>(11,298)</b>	<b>70,636</b>	<b>88,244</b>	<b>(9,738)</b>	<b>78,506</b>
<b>Total loans to customers</b>	<b>660,528</b>	<b>(18,137)</b>	<b>642,390</b>	<b>746,561</b>	<b>(21,530)</b>	<b>725,031</b>

Stage 1 loans also include one individually assessed loan with total net amount GEL 4,032 thousand, which was fully collateralized with deposit as of 31 December, 2022.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 9. Investments in debt instruments measured at amortised cost

Investments in debt instruments measured at amortised cost comprise:

	December 31, 2022		December 31, 2021	
	Nominal annual interest rate	Amount	Nominal annual interest rate	Amount
T-notes	9.37%-11.6%	17,341	9.37%-11.6%	17,328
Less: allowance for expected credit losses		(18)		(19)
<b>Total investments in debt instruments</b>		<b>17,323</b>		<b>17,309</b>

As at December 31, 2022 and 2021 interest accrued on investments in debt instruments represents GEL 728 thousand and GEL 728 thousand, respectively.

Investments in debt instruments are non-past due financial assets as at December 31, 2022 and 2021. The allowance for expected credit losses as at December 31, 2022 and 2021 was estimated based on counterparty ratings determined by the international rating agencies.

According to Fitch, country rating for Georgia stands at BB, while outlook upgraded from Stable to Positive.

### 10. Assets classified as held for sale

After the default of some counterparties on loans to customers, the Bank recognised the property pledged as collateral for those loans as assets held for sale. The assets have been subsequently measured at the lower of fair value less disposal costs or the carrying value, as the Banks's management of the appropriate level committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated.

Assets held for sale comprised the following:

	December 31, 2022	December 31, 2021
Repossessed assets held for sale	8,346	-
<b>Total assets classified as held for sale</b>	<b>8,346</b>	<b>-</b>

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 11. Property and equipment

Property and equipment comprise:

	Buildings and other real estate	Computers and communication equipment	Vehicles	Furniture and fixture	Other	Leasehold improvements	Right of use assets	Total
<b>At cost / revalued amount</b>								
<b>January 1, 2021</b>	<b>11,021</b>	<b>3,983</b>	<b>586</b>	<b>1,139</b>	<b>1,199</b>	<b>903</b>	<b>3,508</b>	<b>22,339</b>
Additions	-	1,431	-	109	58	4	582	2,184
Disposals	-	(30)	(82)	(3)	(21)	(141)	(325)	(602)
<b>December 31, 2021</b>	<b>11,021</b>	<b>5,384</b>	<b>504</b>	<b>1,245</b>	<b>1,236</b>	<b>766</b>	<b>3,765</b>	<b>23,921</b>
Additions	-	554	165	68	29	5	1129	1,950
Disposals	-	-	-	-	(1)	-	-	(1)
Revaluation	(395)	-	-	-	-	-	-	(395)
Write off	-	-	-	-	-	(144)	(839)	(983)
<b>December 31, 2022</b>	<b>10,626</b>	<b>5,938</b>	<b>669</b>	<b>1,313</b>	<b>1,264</b>	<b>627</b>	<b>4,055</b>	<b>24,492</b>
<b>Accumulated depreciation</b>								
<b>January 1, 2021</b>	<b>14</b>	<b>2,066</b>	<b>335</b>	<b>802</b>	<b>785</b>	<b>331</b>	<b>1,253</b>	<b>5,586</b>
Charge for the year	162	428	44	100	135	194	837	1,900
Eliminated on disposals	-	(30)	(55)	(2)	(20)	(141)	(324)	(572)
<b>December 31, 2021</b>	<b>176</b>	<b>2,464</b>	<b>324</b>	<b>900</b>	<b>900</b>	<b>384</b>	<b>1,765</b>	<b>6,914</b>
Charge for the year	162	651	44	106	125	171	843	2,102
Eliminated on disposals	-	-	-	-	-	(144)	(839)	(983)
Eliminated on revaluation	(311)	-	-	-	-	-	-	(311)
<b>December 31, 2022</b>	<b>27</b>	<b>3,115</b>	<b>368</b>	<b>1,006</b>	<b>1,025</b>	<b>411</b>	<b>1,769</b>	<b>7,721</b>
<b>Net book value:</b>								
<b>As at December 31, 2021</b>	<b>10,845</b>	<b>2,920</b>	<b>180</b>	<b>345</b>	<b>336</b>	<b>382</b>	<b>2,000</b>	<b>17,007</b>
<b>As at December 31, 2022</b>	<b>10,599</b>	<b>2,823</b>	<b>301</b>	<b>307</b>	<b>239</b>	<b>216</b>	<b>2,285</b>	<b>16,770</b>

Rights-of-use assets represent the leases of items related to the building and other real estate group.

As at December 31, 2022 and 2021 the Bank did not have any pledged property and equipment.

As at December 31, 2022 and 2021 included in property and equipment were fully depreciated assets totaling GEL 3,060 thousand and GEL 2,574 thousand, respectively.

The Bank's buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The buildings were revalued to market value on August 1, 2022.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

Details of the Bank's buildings and information about the fair value hierarchy as at December 31, 2022 were as follows:

	Valuation technique	Unobservable inputs	Fair value hierarchy	Fair value as at December 31, 2021
Buildings in following region:				
- Tbilisi - Shartava street	Sales comparison approach	Price per square meter	Level 3	6,520
- Tbilisi - Kostava street				2,478
- Batumi - Gorgasali street				1,280
- Tbilisi - Gamsakhurdia street				348
<b>Total</b>				<b>10,626</b>

Had the Bank's buildings been measured on a historical cost basis, their carrying amount would have been GEL 8,384 thousand and GEL 8,547 thousand as at December 31, 2022 and December 31, 2021, respectively.

## 12. Other assets

Other assets comprise:

	December 31, 2022	December 31, 2021
<b>Other financial assets</b>		
*Receivables from debt securities issued	11,929	-
**Settlements on foreign exchange operations	7,056	3,664
Accounts receivable	602	435
Less: allowance for expected credit losses	(283)	(230)
<b>Accounts receivable, net</b>	<b>19,304</b>	<b>3,869</b>
Financial assets at fair value through profit and loss (Note 16)	-	80
<b>Total financial assets</b>	<b>19,304</b>	<b>3,949</b>
<b>Other non-financial assets</b>		
Repossessed assets	10,394	15,767
Prepayments for property and equipment	474	151
Prepaid expenses	437	696
Tax settlements, other than income tax	99	263
Other	315	417
<b>Total non-financial assets</b>	<b>11,719</b>	<b>17,294</b>
<b>Total other assets</b>	<b>31,023</b>	<b>21,243</b>

\* Receivables from debt securities consist of receivable from JSC Halyk Finance for sold bond on AIX stock exchange market. Amount was received on 4 January, 2023.

\*\* Represents receivables from Spot exchange deals with resident commercial banks, which are gross settled in subsequent period, more specifically in two business days.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 13. Due to financial institutions

Due to financial institutions comprise:

	Currency	Maturity Year	Nominal /Weighted average effective rate 2022	December 31, 2022	Nominal /Weighted average effective rate 2021	December 31, 2021
Loans from the Parent	EUR/USD	2023-2024	2.78%	359,319	2.70%	431,142
Deposits by the Parent	USD	2023	1.76%	68,296	1.01%	1,768
Loro accounts by resident commercial banks	EUR/USD	2023	1.46%	1,950	0%	68
<b>Total due to financial institutions</b>				<b>429,565</b>		<b>432,978</b>

As at December 31, 2022 and 2021 due to financial institutions included accrued interest in the amount of GEL 7,625 thousand and GEL 7,661 thousand, respectively. As at December 31, 2022 and 2021 due to financial institutions totaling GEL 427,615 thousand and GEL 432,910 thousand (99.5% and 99.9%), respectively, were due to 1 Bank (the Parent), which represents a significant concentration.

Reconciliation of changes arising from Loans and deposits from the Parent during 2022 and 2021 are presented below:

	January 1, 2022	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange loss during the year	December 31, 2022
Loans from the Parent	431,142	138,311	(142,239)	7,355	(6,558)	(68,692)	359,319
Deposits by the Parent	1,768	157,712	(91,605)	1,729	(668)	(640)	68,296

	January 1, 2021	Receipt of principal	Repayment of principal	Interest accrual during the year	Interest paid during the year	Foreign exchange gain during the year	December 31, 2021
Loans from the Parent	218,465	335,890	(91,371)	6,679	(3,237)	(35,284)	431,142
Deposits by the Parent	95,003	79,158	(167,304)	816	(1,093)	(4,812)	1,768

### 14. Deposits by customers

Deposits by customers comprise:

	December 31, 2022	December 31, 2021
Repayable on demand	219,274	281,620
Term deposits	112,614	103,646
<b>Total deposits by customers</b>	<b>331,888</b>	<b>385,266</b>

As at December 31, 2022 and 2021 deposits by customers included accrued interest in the amount of GEL 6,527 thousand and GEL 3,115 thousand, respectively.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

As at December 31, 2022 and 2021 deposits by customers totaling GEL 182,420 thousand and GEL 233,525 thousand (54.96% and 60.52% of total deposits by customers), respectively were due to 10 customers, which represents a significant concentration.

As at December 31, 2022 and 2021 deposits by customers totaling GEL 4,608 thousand and GEL 9,081 thousand, respectively were held as security against guarantees issued by the Bank.

As at December 31, 2022 and 2021 deposits by customers totaling GEL 15,435 thousand and GEL 6,642 thousand, respectively, were pledged as security for loans to customers.

	December 31, 2022	December 31, 2021
<b>Analysis by industries:</b>		
State and public organisations	106,761	139,593
Trade and service	129,305	126,843
Individuals	71,696	79,010
Construction	7,258	17,818
Transportation and communication	6,766	5,125
Energy	42	159
Other	10,060	16,718
<b>Total deposits by customers</b>	<b>331,388</b>	<b>385,266</b>

### 15. Debt securities issued

	December 31, 2022	December 31, 2021
Debt securities issued	23,606	-
<b>Total debt securities issued</b>	<b>23,606</b>	<b>-</b>

In May 25, 2022, the three-year Bonds of Halyk Bank Georgia were placed on Astana International Exchange (“AIX”, “Exchange”) for daily trading. The current issue of USD15 mln represents the first tranche of the USD 45 mln Bonds Programme registered with AIX. Bond’s coupon rate is 4%. Bonds were issued with discount, which amounted to GEL 535 thousand as at 31 December, 2022.

### 16. Lease Liability

The Bank leases several building areas for its operating branches. The average lease term is 5 years.

Reconciliation of changes arising from lease operations are presented below:

Lease Liabilities	January 1, Recognition of lease liability	Addition during the year	Interest accrual during the year	Repayments of Lease during the year	Foreign exchange the gain/loss during the year	December 31
2022	2,206	1,129	92	(975)	(200)	2,252
2021	2,654	582	132	(1,102)	(60)	2,206

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

Amounts related to the lease operations recognised in profit and loss are the following:

	December 31, 2022	December 31, 2021
<b>Amounts recognised in profit and loss</b>		
Depreciation expense on right-of-use assets	843	837
Interest expense on lease liabilities	92	132
Expense related to short-term and low-value assets	48	44

Maturity analysis of lease liabilities are presented in note 28.

### 17. Subordinated debt

Subordinated debt comprises:

	Currency	Maturity date year	Nominal/Weighted average effective rate	December 31, 2022	December 31, 2021
JSC Halyk Bank Kazakhstan	USD	2028	4.5%	27,091	31,057
<b>Total subordinated debt</b>				<b>27,091</b>	<b>31,057</b>

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinated to the repayments of the Bank's liabilities to all other creditors.

As at December 31, 2022 and 2021 subordinated debt included accrued interest in the amount of GEL 71 and GEL 81 thousand, respectively.

Movement of subordinated debt for the year ended December 31, 2022 and 2021 was as follows:

	January 1	Interest accrual during the year	Interest paid during the year	Foreign exchange gain/(loss) during the year	December 31
2022	31,057	1,330	(1,335)	(3,961)	27,091
2021	32,862	1,499	(1,511)	(1,793)	31,057

### 18. Other liabilities

Other liabilities comprise:

	December 31, 2022	December 31, 2021
<b>Other financial liabilities:</b>		
Settlement of foreign exchange operations	7,059	3,659
Accounts payable	1,032	647
Provision for employee benefits	2,420	2,249
<b>Other non-financial liabilities:</b>		
Taxes payable, other than income tax	3	418
<b>Total other liabilities</b>	<b>10,514</b>	<b>6,973</b>

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 19. Share capital

As at December 31, 2022 and 2021 the Bank's authorized and issued share capital consisted of 76,000 ordinary shares with par value of GEL 1,000 each. As at December 31, 2022 and 2021 the Bank's issued share capital was fully paid.

### 20. Net interest income before impairment losses

Net interest income and expense before impairment losses comprise:

	2022	2021
<b>Interest revenue calculated using the effective interest rate method:</b>		
Loans to customers	55,716	47,471
Investments in debt instruments	1,752	1,752
Cash and cash equivalents	4,270	2,483
Mandatory cash balance with the NBG	616	95
	<b>62,354</b>	<b>51,801</b>
<b>Other interest income:</b>		
Penalty income	2,565	1,960
Other	306	254
	<b>2,871</b>	<b>2,214</b>
<b>Total interest income</b>	<b>65,225</b>	<b>54,015</b>
<b>Interest expense calculated using the effective interest rate method:</b>		
Deposits by customers	(19,011)	(12,697)
Due to financial institutions	(9,432)	(7,665)
Debt securities issued	(306)	-
Subordinated debt	(1,330)	(1,499)
Lease liability	(92)	(132)
	<b>(30,171)</b>	<b>(21,993)</b>
<b>Net interest income</b>	<b>35,054</b>	<b>32,022</b>

The total interest income calculated using the EIR method for financial assets measured at amortized cost is GEL 62,254 thousand during the year 2022 (year 2021: GEL 51,801 thousand). The total interest expense calculated using the EIR method for financial liabilities measured at amortized cost is GEL 30,079 thousand during the year 2022 (year 2021: GEL 21,861 thousand).

### 21. Impairment losses on interest bearing and non-interest-bearing assets / Provision for other operations

The movements in allowance for expected credit losses on interest bearing assets for the year ended December 31, 2022 and 2021 were as follows:



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	Cash and cash equivalents	Mandatory cash balances with the NBG	Due from financial institutions	Loans to Customers	Investments in debt instruments	Total
<b>January 1, 2021</b>	1	1	-	20,005	22	20,029
Impairment losses/(recovery of impairment losses)	1	-	-	871	(3)	869
Interest income correction	-	-	-	654	-	654
<b>December 31, 2021</b>	2	1	-	21,530	19	21,552
Impairment losses/(recovery of impairment losses)	6	-	1	(4,386)	(1)	(4,380)
Interest income correction	-	-	-	993	-	993
<b>December 31, 2022</b>	8	1	1	18,137	18	18,165

The movements in allowance for expected credit losses on non-interest-bearing assets for the year ended December 31, 2022, and 2021 were as follows:

	Other financial assets
<b>January 1, 2021</b>	160
Allowance for credit losses	70
<b>December 31, 2021</b>	230
Allowance for credit losses	59
Write off	(6)
<b>December 31, 2022</b>	283

Impairment losses for repossessed assets for the year ended December 31, 2022 and 2021 amounted to GEL 1,716 and GEL 0, respectively.

Provision for other operations represents the provision against loan commitments and guarantees issued. The movements in the provisions were as follows:

	Guarantees and loan commitments
<b>January 1, 2021</b>	853
Recovery of provisions	(488)
<b>December 31, 2021</b>	365
Recovery of provisions	(174)
<b>December 31, 2022</b>	191

## 22. Fee and commission income and expense

Fee and commission income and expense comprise:

	2022	2021
<b>Fee and commission income:</b>		
Plastic card operations	1,598	1,582
Settlements	524	474
Cash operations	297	360
Other	36	176
<b>Total fee and commission income</b>	<b>2,455</b>	<b>2,592</b>
<b>Fee and commission expense:</b>		
Plastic card operations	(2,382)	(2,176)
Settlements	(210)	(202)
Cash operations	(5)	(41)
Other fee expense	(48)	-
<b>Total fee and commission expense</b>	<b>(2,645)</b>	<b>(2,419)</b>

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

For the years ended December 31, 2022 and 2021 fee and commission income and expense included service fees for Plastic Cards operations. The Bank acts as an intermediary between the number of resident companies and the provider of the plastic card services – VISA and MasterCard, for which the Bank receives and pays commission charges.

### 23. Net (loss)/gain on foreign exchange operations

Net (loss)/gain on foreign exchange operations comprise:

	2022	2021
Dealing, net	2,726	785
Translation differences, net	(3,035)	(1,585)
<b>Net (loss)/gain on foreign exchange operations</b>	<b>(309)</b>	<b>(800)</b>

### 24. Operating expenses

Operating expenses comprise:

	2022	2021
Staff costs	12,318	10,991
Depreciation and amortization	2,758	2,467
IT services	1,143	1,189
Advertising costs	794	174
Professional services	580	387
Taxes, other than income tax	414	409
Utilities	251	233
Office supplies	217	137
Communications	194	198
Card operations and settlement expenses	125	121
Insurance expense	114	70
Representative expenses	107	22
Property and equipment maintenance	106	69
Security expenses	60	60
Expenses related to short-term and low-value assets	48	44
Business trip expenses	47	16
Other expenses	1,251	1,169
<b>Total operating expenses</b>	<b>20,527</b>	<b>17,756</b>

### 25. Income taxes

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of Georgia, which differs from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2022 and 2021 relate mostly to different methods/timing

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

of income and expense recognition as well as to temporary differences generated by tax – book bases’ differences for the certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 15% payable by corporate entities in Georgia on taxable profits as defined under tax law of Georgia.

From January 1, 2023, a new law on income tax was to come into force. The new corporate income tax system was to shift the taxation of CIT from the time of profit to the time of its distribution, so financial institutions should not have any deferred tax assets or liabilities after January 1, 2023. The Bank has determined that GEL 690 thousand and GEL 1,802 thousand of deferred tax liability for the year 2021 and 2020 respectively would not been utilized at the moment of transition to new tax requirements.

On December 2022, the Parliament of Georgia cancelled previously announced transition to “Estonian model” for banking sector. This change led to the emergence in 2022 of tax liabilities canceled in previous periods in the amount of GEL 2,492 thousand.

Also from 2023 statutory tax rate of corporate taxation changed from 15% to 20%. In addition, National Bank of Georgia adopted Transition of commercial banks’ supervisory reports to International Financial Reporting Standards (IFRS).

From January 2023, commercial banks are expected to comply with supervisory regulations with IFRS - based numbers, which also resulted in a change in the tax base.

In 2022, the revised tax rate has been extended to all assets and liabilities except for related to loans, which resulted in deferred tax liability increase by GEL 53 thousand.

Deferred tax liabilities as at December 31, 2022 and 2021 comprise:

	Deferred tax assets/(liabilities) as at December 31, 2021	Deferred Tax expense recognized in profit and loss	Deferred tax liability increase due to change in tax legislation	Deferred tax liability increase due to change in tax Rate	Recognized in other comprehensive income	Net Deferred tax assets/(liabilities) as at December 31, 2022
Other assets	93	298	-	55	-	446
Provisions for other operations	337	91	-	56	-	484
Lease liabilities	137	7	193	113	-	450
Other liabilities	86	(107)	-	154	-	133
Property and equipment and intangible assets	(186)	(5)	(1,117)	(431)	12	(1,727)
Loans to customers	(1,304)	(445)	(1,568)	-	-	(3,317)
<b>Net deferred tax liability</b>	<b>(837)</b>	<b>(161)</b>	<b>(2,492)</b>	<b>(53)</b>	<b>12</b>	<b>(3,531)</b>

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Deferred tax assets/(liabilities) as at December 31, 2020	Deferred tax liability decrease due to change in tax legislation	Net Deferred tax assets/liabilities as at December 31, 2021
Other assets	2	91	93
Provisions for other operations	156	181	337
Lease liabilities	256	(119)	137
Other liabilities	58	58	86
Property and equipment and intangible assets	(578)	392	(186)
Loans to customers	(3,052)	1,748	(1,304)
<b>Net deferred tax liability</b>	<b>(3,158)</b>	<b>2,321</b>	<b>(837)</b>

The effective tax rate reconciliation is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
<b>Profit before income tax</b>	<b>19,233</b>	<b>15,204</b>
Tax at the statutory tax rate (15%)	2,885	2,281
Deferred tax liability increase due to change in tax legislation	2,545	-
Utilization of prior year losses	-	(1,468)
Tax effect of permanent differences	(655)	(1,018)
<b>Income tax expense/(benefit)</b>	<b>4,775</b>	<b>(205)</b>
Current year tax expense	2,069	3,583
Deferred tax expense recognised in the current year	2,706	(2,321)
Utilization of prior year losses	-	(1,468)
<b>Income tax expense/(benefit)</b>	<b>4,775</b>	<b>(205)</b>

## 26. Commitments and contingencies

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Provision for losses on contingent liabilities totaled GEL 192 thousand and 365 as at December 31, 2022 and 2021, respectively.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

As at December 31, 2022 and 2021 contingent liabilities comprise:

	December 31, 2022	December 31, 2021
<b>Contingent liabilities and credit commitments</b>		
Guarantees issued and similar commitments	10,868	7,631
Unused credit lines	26,553	29,444
<b>Total contingent liabilities and credit commitments</b>	<b>37,421</b>	<b>37,075</b>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on the borrowers' financial performance, debt service and other conditions.

### **Capital commitments**

No material capital commitments were outstanding as at December 31, 2022 and 2021.

### **Legal proceedings**

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

### **Taxation**

Commercial legislation of Georgia, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Georgian transfer pricing legislation was amended starting from January 1, 2014 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. The impact of challenge of the Bank's transfer pricing positions by the tax authorities cannot be reliably estimated.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Last tax inspection took place in August 2018, thus the open period for tax inspection is 2020-2022.

### **Operating environment**

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 two years, Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2022 and 2021 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

### 27. Fair value of financial instruments

IFRS defines fair value as 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.

#### Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Investments in equity instruments are measured at fair value and categorized into Level 3.

#### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

#### Cash and cash equivalents, mandatory reserves with the NBG, due from financial institutions, due to financial institutions and deposits by customers

For cash and cash equivalents, mandatory reserves with the NBG, due from financial institutions, due to financial institutions and deposits by customers fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

**Loans to customers** - Loans to individual customers are made both at variable and at fixed rates. As there is no active secondary market in Georgia for such loans and advances, there is no reliable market value available for this portfolio. Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the balance sheet date for similar loans of maturity equal to the remaining fixed period.

**Investments in debt instruments** - The estimated fair value of fixed interest rate debt instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Subordinated debt** - The fair values of subordinated debt is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions for similar instruments.

**Other financial assets and liabilities** - Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.

**Debt securities issued** - The fair values of debt securities was estimated as the present value of estimated future cashflows, discounted at the year-end market rates.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

	Fair value hierarchy	December 31, 2022		December 31, 2021	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans to customers	Level 3	642,391	645,696	725,031	736,457
Investments in debt securities	Level 2	17,323	17,486	17,309	17,328
Due to financial institutions	Level 3	429,565	422,884	432,978	426,162
Deposits by customers	Level 3	331,888	331,544	385,266	383,845
Debt securities issued	Level 2	23,606	23,677	-	-
Subordinated debt	Level 3	27,091	27,090	31,057	31,309

## 28. Risk management policies

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Bank recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework with the main purpose to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

### Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Bank's Management Board. The Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for the credit risks identification and evaluation, implementation of the control and monitoring measures. The Risk Management division directly participates in the credit decision-making processes and consideration of internal

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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rules, regulations and loan programs. Along with that, the division provides independent recommendations concerning credit exposure minimization measures, controls and monitors credit risks, provides relevant reporting to the management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or a group of borrowers, and to industry segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programs (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of guarantees issued, the Bank obtains collateral and corporate and personal guarantee.

Commitments to extend credit represent guarantees or letter of credit. The credit risk on off-balance sheet financial instruments is defined as the probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

### **Credit risk grades**

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to the credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The Bank uses automated tool Risk Analyst for the corporate borrowers that includes two possible approaches to internal rating models: Fundamental Analysis and Scorecard. Both approaches support sophisticated analysis of ratios and financial metrics.

The primary difference between these two approaches is the way the system calculates and scores the inputs of the model. While the methodologies of these approaches differ, they are both based on the same technology platform. Additionally, each internal rating model, no matter the approach used, produces a borrower rating and PD. The Internal Rating Model Author supports the creation and customization of internal rating models using both approaches.

Additionally, the Bank uses another internal scorecard system for the assessment of SME borrowers. The scorecard is based on statistical information of borrowers' financial data as well as qualitative characteristics. As a result internal scorecard system provides the borrowers' internal rating.



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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

Upon disbursement of a loan, an exposure score is assigned based on the predetermined criteria, which is later reflected in grades.

Ratings upon disbursement of a loan is summarized in the below table:

Ratings	Description	
1	High quality loan, low risk. The loan meets the highest requirements. Client's capacity for payment is very strong. The activity is practically not subjected to external negative influencing factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.	
2+		
2		
3+		
3		
3+		
3		
3-		
4+		Satisfactory loan quality, low risk. The loan meets most of the requirements. Capacity for payment is strong. Weak dependence on external economic factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.
4		
4-		
5+		
5	Relatively small vulnerability in the short term, however, higher sensitivity to the effects of adverse changes in business, financial and economic spheres. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.	
5-		
6+		
6	High vulnerability in adverse business, financial and economic conditions, although at present there is the possibility of meeting financial obligations. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.	
6-		
7+		
7	High risk of default (high, at the moment, exposure to credit risks); financial obligations can be met in the presence of favorable business, financial and economic conditions. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.	
7-		
8		
9	Very high risk of default. Customer solvency is low. Customer activity is completely dependent on external factors. Distribution of ratings within the category depends on different quantitative and qualitative parameters, such as financial covenants, quality of management, quality of financial information, influence of external factors, etc.	
10		

\*loans without rating: amount below USD 100,000, cash cover loans, retail loans.

### Rating changes

Changes in grades depend on a number of quantitative and qualitative indicators such as: financial covenants, quality of financial information, competitive position in the market, influence of suppliers / buyers, influence of the owner, quality of management, risk of adverse events, etc.

### Credit risk measurement methodology

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (“PD”), Exposure at Default (“EAD”) and Loss Given Default (“LGD”). This is similar to the approach used for the purposes of measuring ECL under IFRS 9.

In accordance with the IFRS 9 the Bank uses a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from financial institutions;
- Loans and advances to customers;
- Investment in debt securities;
- Other receivables;
- Loan commitments issued; and
- Financial guarantee contracts issued.
- Interbank deposits and corresponding accounts.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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For undrawn loan commitments and financial guarantee contracts, ECL is measured based on Credit Conversion Factor of 37.5% for undrawn loan commitments and 100% for financial guarantees as at December 31, 2022. That is comparable to 34.8% for undrawn loan commitments and 100% for financial guarantees as at December 31, 2021.

Due from financial institutions, interbank deposits and corresponding accounts, investment in debt securities are subject to impairment based on 12-months ECL. The estimates of probability default and loss given default for clients are derived from credit rating information supplied by international rating agencies.

Allowance for expected credit losses on other receivables is estimated based on provision rates of collective approach of impairment.

### **Loans to customers**

To assess credit risk of exposures to the borrowers the Bank has developed methodology in accordance with IFRS 9.

The Bank measures expected credit losses on an individual basis, or on a collective basis for portfolios of loans, that share similar credit risk characteristics.

Individually significant exposures are considered borrowers/group of related borrowers which exposure exceeds 1% of Tier 1 capital. Besides, they should have the signs of significant increase in credit risk. To determine whether exposure has indicators of significant increase in credit risk or impairment loss event has been incurred, information about the borrowers' liquidity, solvency and business and financial risk exposures, overdue, restructuring, credit ratings and the fair value of collaterals are analysed. Unlike the 2021 the spread of Covid19 is not considered as event that significantly increased the credit risk of loan portfolio in some areas, like Horeca (Hotels, restaurants and cafes) by the end of 2022.

ECLs on individually significant exposures with the signs of significant increase in credit risk are measured on an individual basis, however for defaulted borrower or group of borrowers the exposure threshold for individual assessment is 0.5% of Tier 1 capital. ECLs on individually significant exposures without signs of significant increase in credit risk are measured on a collective basis.

### **Measurement of ECL on an individual basis**

For individually assessed loans, ECLs are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the bank expects to receive arising from the weighting of multiple future economic scenarios, discounted using effective interest rate. Besides, the realization of assets held as collateral against the loans are taking into account. The Bank generally assesses liquidation value of the collaterals considering 2.5 years as a time to collect period and application of 10% expenses for asset liquidation. Liquidation value used in calculation is at least 20% less than market value of collateral. The general approach is overridden individually if other circumstances demonstrate that generic time to collect period and valuation haircut is not reasonable.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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### Measurement of ECL on a collective basis

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Collective assessment is performed on a borrower level rather than contract level.

### Segmentation

Collectively assessed loans are grouped together according to their credit risk characteristics. Such characteristics are:

- Segment
- Sector
- Collateralization
- Currency

Portfolio subject to collective assessment of ECL is divided into by sectors: Trade, construction and real estate management, other business sectors, by product: Collateralized Retail and Non-collateralised Retail and by currency too (GEL and Foreign currency, except Non-collateralised Retail, that was not segmented by currencies). In total 9 segments.

Each segment was further pooled into 5 groups sharing similar credit risk features, such as overdue days and restructuring and, in some terms, credit rating, Debt service coverage ratio (DSCR) and Payment to Income (PTI) ratio

Due to the above segmentation rules, collectively assessed portfolio is grouped into 45 similar credit risk characteristics pools.

### Definition of default

Critical to the determination is the definition of default. The definition of default is incorporated in measuring the amount of ECL. The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank
- The borrower's any material credit obligation was restructured by protocols of different credit committees, while assets category is "Watch loan", "substandard Loan", "Doubtful loans", "Loss Loans" according to Asset classification Regulation of National Bank of Georgia.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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- The borrower is unlikely to pay its credit obligations to the Bank in full, its debts was written-off or sold with significant discount or borrower is considered as “problematic” or the borrower is under litigation process to be recognised as bankrupt.
- Active credit rating is 8, 9 or 10;
- For corporate and medium and small business DSCR < 1 and for retail segment PTI>70% if borrower’s income exceeds 1500 GEL per month or PTI>55% if borrower’s income is less than 1500 GEL per month

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. The information assessed depends on the materiality of exposure too. Qualitative indicators, such as the lowest grades by internal credit rating model, external information about possible deterioration of financial situation of borrower are significant inputs in the analysis and are used for identification of loans for individual assessment of ECL if the borrower’s exposure is above materially significant threshold. For collective assessment of ECL credit rating 8,9 or 10 or assigning the status of “problematic” to the borrower are also considered as Default.

### **Significant increase in credit risk**

The Bank monitors financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, Bank considers both quantitative and qualitative information that is reasonable and supportable. Significant deterioration of credit rating of borrower leading to increase the PD by more than 10% with active internal rating 6- or worse or material decrease the price of collateral could be considered as the qualitative signs of significant increase in credit risks and are used for identification of loans for individual assessment of ECL if the borrowers exposure is above materially significant threshold.

When an asset becomes more than 30 days past due or restructured due to financial problems, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

To determine the PD rates for each group, the Bank utilizes migration matrices methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be defaulted as a result of the events occurring before the balance sheet date. Observation period for homogenous group was taken as one year from November 2021 to November -2022. During the observation period, the one month migration matrices were generated. To exclude portfolio growth effect, the loans disbursed from July 2021 were excluded from the statistical analysis.

Migrations matrices are used to calculate 12-months probability of default (PD) for each group of collective assessment. Based on that, is calculated marginal PDs by future years until the maturity of portfolio is expired. For calculations of PDs, default was determined as 90 days overdue.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 *(in thousands of Georgian Lari)*

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To estimate Point in Time PDs the Bank incorporates of forward-looking information under different macro scenarios.

As at December 31, 2022, 10% increase/ (decrease) in average PD per each pool results in ECL increase/(decrease) by 4.9%/4.9% that represents GEL 891/(-891) thousand.

### **LGD model**

Another component of impairment model is LGD (loss given default), that is an estimate of the loss arising on default. To measure it, defaulted exposures by segments is reduced by deposits pledged and the discounted liquidation value of real estate pledged using 2.5 years of time to collect period, 10% percent realization expenses and minimum 20% valuation haircut to market value of collateral. LGDs are measured on segment rather than on group level.

As at December 31, 2022, 10% increase/ (decrease) in - valuation haircut results in ECL increase/(decrease) by 11.3%/-9.6% that represents GEL 2,041/(-1,741) thousand.

As at December 31, -2022, 10% increase/ (decrease) in time to collect period results in ECL increase/(decrease) by 7.9%/-8.9% that represents GEL 1,431/(-1497) thousand.

### **EAD model**

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty, adjusted by the potential changes in case of moving in stage 3 (Default), that is 1.007 for stage 1 loans and 1.011 for stage 2 loans.

### **Incorporation of forward-looking information**

The Bank uses forward-looking information in its measurement of ECL. The information used includes economic data and economic indicators prognoses published by monetary authorities. Three economic scenarios (baseline, pessimistic, optimistic) are used to adjust marginal probabilities of default. Weighting of these 3 different scenarios forms the basis of a weighted average probabilities of default that are used in calculations of ECL. 12-month ECL (stage 1 loans) is measured only with the twelve month PD. Lifetime ECL (stages 2 and 3 loans) is measured with all annual marginal PDs until the maturity of loan expires.

Macroeconomic indicators prognoses with different scenarios and their weights are published by National Bank of Georgia for IFRS 9 purposes. The base case scenario is the single most-likely outcome and its weighting in calculations is 50%. The weighting of pessimistic and optimistic scenarios are 25% for each.

Using a statistical analysis of historical data, have estimated relationships between macro-economic variables and probabilities of default. Three macroeconomic indicators (GDP growth, GEL/USD exchange rate, and real estate prices) are included in future economic scenarios for individual assessed loans. For collectively assessed portfolio the Bank estimated the impact of GDP growth rate, annual inflation rate and GEL/USD exchange rate on probabilities of default and final ECL. Inflation rate does not show statistically proved relation with probabilities of default.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The principal macroeconomic indicators included in the economic scenarios used at 31 December 2022 for the years 2023 to 2025, for Georgia, are published by NBG. These indicators have a significant impact on ECL.

Predicted relationship between the economic indicators and default and loss rates on loan portfolios have been developed based on analyzing historical data over the past 5 years.

The Bank has performed sensitivity analysis on how ECL on the loan portfolios will change if the key assumptions used to calculate ECL change. The table below outlines the total ECL of collective assessment, if each of the key assumptions used change by 10%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses.

	Change	Average PD	Average LGD	Impact on ECL (th. GEL)
GDP growth rate scenario changes	10%	8.9%	16.8%	(110)
	-10%	8,9%	16.8%	110
	10%	9.0%	16.8%	192
GEL/USD exchange rate scenario change	-10%	8.8%	16.8%	(192)
Real Estate Prices	10%	8.9%	13.0%	(1,818)
	-10%	8.9%	21.9%	2,232

### Calculation of ECL

When the marginal PDs and LGDs are determined for each group/segment, final calculations of loan loss allowance is made. It depends on risk characteristics of groups: 12 months ECL is calculated for Stage 1 groups (overdue less than 31 days) and lifetime ECLs for stage 2 or 3 groups (overdue more than 30 days or restructured loans by credit committees or other qualitative indicators). The results of LLP calculation on loan portfolio allows to derive the impairment rates for each of 45 group of collective assessment. These rates are used for formation of loan loss allowance until next recalculation of whole model. Recalculation of impairment model was done in December 2022 based on last available information.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### Credit quality of loans to customers

The following tables provide information on the credit quality of loans to customers as at December 31, 2022 according to the internal credit risk grades:

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL - credit- impaired	Total ECL	Net loans	ECL allowance to gross loans%
<b>Corporate loans</b>							
5	18,721	(36)	(176)	-	(212)	18,509	1.13%
5-	34,666	(233)	-	-	(233)	34,433	0.67%
6+	54,858	(300)	(461)	-	(761)	54,097	1.39%
6	53,681	(145)	(237)	(596)	(978)	52,703	1.82%
6-	25,131	(165)	(545)	-	(710)	24,421	2.83%
7+	7,601	(1)	-	(243)	(244)	7,357	3.21%
10	12,286	-	-	(976)	(976)	11,310	7.94%
Not rated	21,872	(131)	-	-	(131)	21,741	0.60%
<b>Total corporate loans</b>	<b>228,816</b>	<b>(1,011)</b>	<b>(1,419)</b>	<b>(1,815)</b>	<b>(4,245)</b>	<b>224,571</b>	<b>1.86%</b>
<b>SME loans</b>							
5-	906	(6)	-	-	(6)	900	0.66%
6+	24,635	(151)	-	(6)	(157)	24,478	0.64%
6	85,417	(420)	(888)	(213)	(1,521)	83,896	1.78%
6-	98,866	(554)	(295)	(951)	(1,800)	97,066	1.82%
7+	8,552	(14)	(1)	(551)	(566)	7,986	6.62%
7	2,115	(1)	-	(47)	(48)	2,067	2.27%
7-	970	-	(12)	(75)	(87)	883	8.97%
8	2,786	-	-	(24)	(24)	2,762	0.86%
9	1,369	-	-	(251)	(251)	1,118	18.33%
10	9,208	-	-	(2,305)	(2,305)	6,903	25.03%
Not rated	35,639	(235)	(100)	(339)	(674)	34,965	1.89%
<b>Total SME loans</b>	<b>270,463</b>	<b>(1,381)</b>	<b>(1,296)</b>	<b>(4,762)</b>	<b>(7,439)</b>	<b>263,024</b>	<b>2.75%</b>
<b>Retail loans</b>							
6	18	(1)	-	-	(1)	17	5.56%
6-	652	(1)	-	(18)	(19)	633	2.91%
7+	75	-	-	(7)	(7)	68	9.33%
7	1	-	-	-	-	1	0.00%
Not rated	160,503	(1,131)	(599)	(4,696)	(6,426)	154,077	4.00%
<b>Total retail loans</b>	<b>161,249</b>	<b>(1,133)</b>	<b>(599)</b>	<b>(4,721)</b>	<b>(6,453)</b>	<b>154,796</b>	<b>4%</b>
<b>Total loans to customers</b>	<b>660,528</b>	<b>(3,525)</b>	<b>(3,314)</b>	<b>(11,298)</b>	<b>(18,137)</b>	<b>642,391</b>	<b>2.75%</b>



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The following tables provide information on the credit quality of loans to customers as at December 31, 2021 according to the internal credit risk grades:

	Gross loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL - credit- impaired	Total ECL	Net loans	ECL allowance to gross loans%
<b>Corporate loans</b>							
5+	4,723	(2)	-	-	(2)	4,721	0.04%
5	13,506	(25)	-	-	(25)	13,481	0.19%
5-	36,612	(195)	-	-	(195)	36,417	0.53%
6+	53,783	(190)	(1,498)	(17)	(1,705)	52,078	3.17%
6	75,759	(226)	(1,846)	(76)	(2,148)	73,611	2.84%
6-	46,640	(32)	(2,108)	(1,292)	(3,432)	43,208	7.36%
7+	4,260	(1)	-	(21)	(22)	4,238	0.52%
10	16,921	-	-	(1,057)	(1,057)	15,864	6.25%
Not rated	18,633	(27)	-	-	(27)	18,606	0.14%
<b>Total corporate loans</b>	<b>270,837</b>	<b>(698)</b>	<b>(5,452)</b>	<b>(2,463)</b>	<b>(8,613)</b>	<b>262,224</b>	<b>3.18%</b>
<b>SME loans</b>							
5-	7,333	(73)	-	-	(73)	7,260	1.00%
6+	13,160	(70)	(63)	(36)	(169)	12,991	1.28%
6	83,634	(456)	(924)	(740)	(2,120)	81,514	2.53%
6-	130,115	(398)	(1,691)	(1,092)	(3,181)	126,934	2.44%
7+	17,408	(21)	(251)	(273)	(545)	16,863	3.13%
7	2,859	-	-	-	-	2,859	0.00%
7-	4,224	(2)	-	(935)	(937)	3,287	22.18%
8	-	-	-	-	-	-	0.00%
9	907	-	-	(144)	(144)	763	15.88%
10	4,226	-	-	(509)	(509)	3,717	12.04%
Not rated	59,441	(298)	(1,040)	(614)	(1,952)	57,489	3.28%
<b>Total SME loans</b>	<b>323,307</b>	<b>(1,318)</b>	<b>(3,969)</b>	<b>(4,343)</b>	<b>(9,630)</b>	<b>313,677</b>	<b>2.98%</b>
<b>Retail loans</b>							
Not rated	152,417	(227)	(127)	(2,932)	(3,287)	149,130	2.16%
<b>Total retail loans</b>	<b>152,417</b>	<b>(227)</b>	<b>(127)</b>	<b>(2,932)</b>	<b>(3,287)</b>	<b>149,130</b>	<b>2.16%</b>
<b>Total loans to customers</b>	<b>746,561</b>	<b>(2,243)</b>	<b>(9,549)</b>	<b>(9,738)</b>	<b>(21,530)</b>	<b>725,029</b>	<b>1.79%</b>

According to the rating methodology of the Bank, corporate and SME loans above include loans to individual entrepreneurs as well as legal entities. The Bank does not apply internal credit risks to retail loans that includes loans to individuals. Some of the loans to SMEs are the loans to the individual entrepreneurs.

### Renegotiated loans to customers

Loans to customers are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan. The table below shows the carrying amount of renegotiated financial assets:

Financial asset class	December 31, 2022	December 31, 2021
Loans to customers	73,581	68,813
Less: allowance for expected credit losses	(6,800)	(9,989)

In addition, as at December 31, 2022 loans with the carrying amount of GEL 70,427 thousand has received payment holidays due to COVID 19 in 2021 60,097.

With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

### Stage movements in loans to customers

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2022 was as following:

	2022			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL –credit- impaired	
<b>Gross carrying amount as at January 1, 2022</b>	<b>539,750</b>	<b>118,567</b>	<b>88,242</b>	<b>746,559</b>
New loans originated	266,946	-	-	266,946
–Transfer from stage 2 to stage 1	60,180	(60,180)	-	-
–Transfer from stage 1 to stage 2	(56,906)	56,906	-	-
–Transfer from stage 2 to stage 3	-	(28,569)	28,569	-
–Transfer from stage 3 to stage 2	-	22,187	(22,187)	-
Loans repaid	(264,794)	(32,687)	(6,480)	(303,979)
Changes due to modifications that did not result in derecognition	(107)	(98)	(74)	(278)
Foreign exchange differences	(35,900)	(6,701)	(6,118)	(48,718)
<b>Gross carrying amount as at December 31, 2022</b>	<b>509,169</b>	<b>69,425</b>	<b>81,934</b>	<b>660,528</b>

Movements in the allowance for expected credit losses for the year ended December 31, 2022 was as following:

	2022			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL – credit- impaired	
<b>Loss allowance as at 1 January 2022</b>	<b>2,243</b>	<b>9,549</b>	<b>9,738</b>	<b>21,530</b>
Changes in the loss allowance				
New loans originated	6,216	-	-	6,216
–Transfer from stage 2 to stage 1	2,022	(2,022)	-	-
–Transfer from stage 1 to stage 2	(196)	196	-	-
–Transfer from stage 2 to stage 3	-	(1,666)	1,666	-
–Transfer from stage 3 to stage 2	-	1,130	(1,130)	-
—Increases due to change in credit risk	-	(479)	1,719	1,240
Loans repaid	(925)	(3,005)	(1,788)	(5,718)
Changes in risk parameters	(5,720)	(361)	481	(5,600)
Interest income correction	-	-	993	993
Foreign exchange differences	(95)	(47)	(381)	(523)
<b>Loss allowance as at December 31, 2022</b>	<b>3,525</b>	<b>3,315</b>	<b>11,298</b>	<b>18,137</b>

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

Movements in the gross carrying value of the loans to customers for the year ended December 31, 2021 was as following:

	2021			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL –credit- impaired	
<b>Gross carrying amount as at January 1, 2021</b>	<b>252,222</b>	<b>198,889</b>	<b>85,221</b>	<b>536,332</b>
New loans originated	437,575	-	-	453,575
–Transfer from stage 2 to stage 1	88,344	(88,344)	-	-
–Transfer from stage 1 to stage 2	(105,223)	105,223	-	-
–Transfer from stage 2 to stage 3	-	(37,525)	37,525	-
Loans repaid	(137,801)	(54,995)	(31,310)	(224,106)
Changes due to modifications that did not result in derecognition	(187)	(91)	24	(254)
Foreign exchange differences	(11,180)	(4,590)	(3,217)	(18,987)
<b>Gross carrying amount as at December 31, 2021</b>	<b>539,750</b>	<b>118,567</b>	<b>88,243</b>	<b>746,561</b>

Movements in the allowance for expected credit losses for the year ended December 31, 2021 was as following:

	2021			Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL - not credit- impaired	Stage 3 Lifetime ECL – credit- impaired	
<b>Loss allowance as at 1 January 2021</b>	<b>3,444</b>	<b>7,405</b>	<b>9,156</b>	<b>20,005</b>
Changes in the loss allowance				
New loans originated	11,439	-	-	11,439
–Transfer from stage 2 to stage 1	2,524	(2,524)	-	-
–Transfer from stage 1 to stage 2	(9,841)	9,841	-	-
–Transfer from stage 2 to stage 3	-	(4,531)	4,531	-
—Increases due to change in credit risk	-	1,126	378	1,504
Loans repaid	(1,760)	(3,470)	(2,821)	(8,051)
Changes in risk parameters	(3,538)	1,774	(1,980)	(3,744)
Interest income correction	-	-	654	654
Foreign exchange differences	(26)	(72)	(180)	(278)
<b>Loss allowance as at December 31, 2021</b>	<b>2,242</b>	<b>9,549</b>	<b>9,738</b>	<b>21,530</b>

### Maximum exposure of credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral and any expected credit loss. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments. Net exposure is total exposure to credit risk net of expected credit loss.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

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<b>December 31, 2022</b>	<b>Maximum Exposure</b>	<b>Net exposure</b>
Cash and cash equivalents excluding cash on hand	132,281	132,273
Mandatory cash balance with the NBG	129,649	129,648
Due from financial institutions	1,116	1,115
Loans to customers	660,528	642,391
Investments in equity instruments	54	54
Investments in debt instruments	17,341	17,323
Other financial assets	19,569	19,304
Guarantees and letter of credits	10,940	10,868

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<b>December 31, 2021</b>	<b>Maximum Exposure</b>	<b>Net exposure</b>
Cash and cash equivalents excluding cash on hand	105,840	105,838
Mandatory cash balance with the NBG	100,836	100,835
Due from financial institutions	815	815
Loans to customers	746,561	725,031
Investments in equity instruments	54	54
Investments in debt instruments	17,328	17,309
Other financial assets	4,179	3,949
Guarantees and letter of credits	7,714	7,631

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### ***Off-balance sheet risk***

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

### **Geographical concentration**

The Assets and Liabilities Management Committee (“ALMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank’s activity. The Bank’s financial assets and financial liabilities as at December 31, 2022 and 2021 were concentrated in Georgia.

The geographical concentration of financial assets and financial liabilities is set out below:

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Georgia	Other non-OECD countries	OECD countries	December 31, 2022 Total
<b>NON-DERIVATIVE FINANCIAL ASSETS</b>				
Cash and cash equivalents	128,315	1,616	2,342	132,273
Mandatory cash balance with the NBG	129,648	-	-	129,648
Due from financial institutions	391	724	-	1,115
Loans to customers	635,997	5,096	1,298	642,391
Investments in equity instruments	54	-	-	54
Investments in debt instruments	17,323	-	-	17,323
Other financial assets	7,375	11,929	-	19,304
<b>TOTAL NON-DERIVATIVE FINANCIAL ASSETS</b>	<b>919,103</b>	<b>19,365</b>	<b>3,640</b>	<b>942,108</b>
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Due to financial institutions	1,950	427,615	-	429,565
Deposits by customers	308,404	17,935	5,549	331,888
Debt securities issued	-	23,606	-	23,606
Lease Liability	2,252	-	-	2,252
Subordinated debt	-	27,091	-	27,091
Other financial liabilities	10,511	-	-	10,511
<b>TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES</b>	<b>323,117</b>	<b>496,247</b>	<b>5,549</b>	<b>824,913</b>
<b>NET POSITION ON FINANCIAL INSTRUMENTS</b>	<b>595,986</b>	<b>(476,882)</b>	<b>(1,909)</b>	<b>117,195</b>

	Georgia	Other non-OECD countries	OECD countries	December 31, 2021 Total
<b>NON-DERIVATIVE FINANCIAL ASSETS</b>				
Cash and cash equivalents	108,215	2,787	5,167	116,170
Mandatory cash balance with the NBG	100,835	-	-	100,835
Due from financial institutions	-	815	-	815
Loans to customers	717,858	5,604	1,569	725,031
Investments in equity instruments	54	-	-	54
Investments in debt instruments	17,309	-	-	17,309
Other financial assets	3,949	-	-	3,949
<b>TOTAL NON-DERIVATIVE FINANCIAL ASSETS</b>	<b>948,220</b>	<b>9,206</b>	<b>6,736</b>	<b>964,163</b>
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>				
Due to financial institutions	68	432,910	-	432,978
Deposits by customers	366,596	16,451	2,218	385,265
Lease Liability	2,206	-	-	2,206
Subordinated debt	-	31,057	-	31,057
Other financial liabilities	6,555	-	-	6,555
<b>TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES</b>	<b>375,425</b>	<b>480,418</b>	<b>2,218</b>	<b>858,061</b>
<b>NET POSITION ON FINANCIAL INSTRUMENTS</b>	<b>572,795</b>	<b>(471,212)</b>	<b>4,518</b>	<b>106,102</b>

### Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, SP and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The following table details the credit ratings of financial assets held by the Bank as at December 31, 2022 and 2021:

December 31, 2022	AAA	AA	A	BBB	<BBB	Not rated	Total
Cash and cash equivalents	-	-	1,616	-	130,657	-	132,273
Mandatory cash balance with the NBG	-	-	-	-	129,648	-	129,648
Due from financial institutions	-	724	-	-	391	-	1,115
Loans to customers	-	-	-	-	19,354	623,037	642,391
Investments in equity instruments	-	-	-	-	-	54	54
Investments in debt instruments	-	-	-	-	17,323	-	17,323
Other financial assets	-	-	-	-	7,158	12,146	19,304
<b>December 31, 2021</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>&lt;BBB</b>	<b>Not rated</b>	<b>Total</b>
Cash and cash equivalents	-	-	-	2,787	113,382	-	116,169
Mandatory cash balance with the NBG	-	-	-	-	100,835	-	100,835
Due from financial institutions	-	815	-	-	-	-	815
Loans to customers	-	-	-	-	9,886	715,145	725,031
Investments in equity instruments	-	-	-	-	-	54	54
Investments in debt instruments	-	-	-	-	17,309	-	17,309
Other financial assets	-	-	-	-	-	3,949	3,949

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's.

The banking industry is generally exposed to credit risk through its loans to customers and inter-bank deposits. With regard to the loans to customers this risk exposure is concentrated within Georgia. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The credit rating of Georgia according to the international rating agencies corresponded to BB.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties. A methodology to determine credit ratings of borrowers has been developed in the Bank to assess borrowers based on transparency of financial information, availability of audited financial statements, quality of management, competitive ability, share on market, related parties etc.

### Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank sets limits for the ratio of cumulative GAP (difference between assets and liability) to total assets in order to control liquidity risk. In case of violation of the limits ALMC makes decision on corrective measures.

Further is analysis of liquidity and interest rate risks:

- (a) term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (main debt and interests) on the earliest date, when the Bank will be liable to redeem the liability, and
- (b) estimated term till maturity of financial assets, calculated for non-discounted cash flows on financial assets (including interests), which will be received on these assets based on contractual terms of maturity, except the cases when the Bank expects that cash flows will be received in the different time.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the contractual maturities of financial assets and liabilities.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2022 Total
<b>FINANCIAL ASSETS:</b>								
Cash and cash equivalents	6.2%	107,833	-	-	-	-	-	107,833
Mandatory cash balance with the NBG	-0.45%	129,648	-	-	-	-	-	129,648
Due from financial institutions			391	-	-	724	-	1,115
Loans to customers	8.77%	54,400	23,376	106,902	233,245	224,468	-	642,391
Investments in debt instruments	10.45%	244	484	-	10,915	5,680	-	17,323
<b>Total interest bearing financial assets</b>		<b>292,125</b>	<b>24,251</b>	<b>106,902</b>	<b>244,160</b>	<b>230,872</b>	-	<b>898,310</b>
Cash and cash equivalents		24,440	-	-	-	-	-	24,440
Investments in equity instruments		-	-	-	-	-	54	54
Other financial assets		19,304	-	-	-	-	-	19,304
<b>Total non-interest bearing financial assets</b>		<b>43,744</b>	-	-	-	-	54	<b>43,798</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>335,869</b>	<b>24,251</b>	<b>106,902</b>	<b>244,160</b>	<b>230,872</b>	<b>54</b>	<b>942,108</b>
<b>FINANCIAL LIABILITIES</b>								
Due to financial institutions	2.59%	1,949	-	242,807	184,809	-	-	429,565
Deposits by customers	6.89%	165,335	6,448	56,034	34,168	7,229	-	269,214
Debt securities issued	4%	-	-	95	23,511	-	-	23,606
Lease liability	5.64%	67	137	569	1,479	-	-	2,252
Subordinated debt	4.50%	-	-	-	-	27,091	-	27,091
<b>Total interest bearing financial liabilities</b>		<b>167,351</b>	<b>6,585</b>	<b>299,505</b>	<b>243,967</b>	<b>34,320</b>	-	<b>751,728</b>
Deposits by customers		57,223	4,203	352	897	-	-	62,675
Other financial liabilities		10,511	-	-	-	-	-	10,511
<b>Total non-interest bearing financial liabilities</b>		<b>67,734</b>	<b>4,203</b>	<b>352</b>	<b>897</b>	-	-	<b>73,186</b>
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>235,085</b>	<b>10,788</b>	<b>299,857</b>	<b>244,864</b>	<b>34,320</b>	-	<b>824,914</b>
Interest sensitivity gap		124,774	17,666	(192,603)	193	196,552	-	
<b>Cumulative interest sensitivity gap</b>		<b>124,774</b>	<b>142,440</b>	<b>(50,163)</b>	<b>(49,970)</b>	<b>146,582</b>	<b>146,582</b>	
Liquidity gap		100,784	13,463	(192,955)	(704)	196,552	54	
<b>Cumulative liquidity gap</b>		<b>100,784</b>	<b>114,247</b>	<b>(78,708)</b>	<b>(79,412)</b>	<b>117,140</b>	<b>117,194</b>	

Demand deposits from customers are included up to 1 month maturity gap in the table above. Based on the Bank's historical performance the customers on average are maintaining half of them in the Bank throughout the year.



# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2021 Total
<b>FINANCIAL ASSETS:</b>								
Cash and cash equivalents	6.12%	89,270	-	-	-	-	-	89,270
Mandatory cash balance with the NBG	-0.44%	100,835	-	-	-	-	-	100,835
Loans to customers	8.04%	43,517	27,527	139,720	260,296	253,971	-	725,031
Investments in debt instruments	10.45%	244	484	-	10,902	5,679	-	17,309
<b>Total interest bearing financial assets</b>		<b>233,866</b>	<b>28,011</b>	<b>139,720</b>	<b>271,198</b>	<b>259,650</b>	-	<b>932,445</b>
Cash and cash equivalents		26,899	-	-	-	-	-	26,899
Due from financial institutions		-	-	-	-	815	-	815
Investments in equity instruments		-	-	-	-	-	54	54
Other financial assets		3,949	-	-	-	-	-	3,949
<b>Total non-interest bearing financial assets</b>		<b>30,848</b>	-	-	-	<b>815</b>	<b>54</b>	<b>31,717</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>264,714</b>	<b>28,011</b>	<b>139,720</b>	<b>271,198</b>	<b>260,465</b>	<b>54</b>	<b>964,162</b>
<b>FINANCIAL LIABILITIES</b>								
Due to financial institutions	2.23%	68	1,768	37,893	393,249	-	-	432,978
Deposits by customers	6.75%	222,203	10,146	44,266	32,444	7,915	-	316,974
Lease liability	5.37%	76	154	686	1,290	-	-	2,206
Subordinated debt	4.50%	81	-	-	-	30,976	-	31,057
<b>Total interest bearing financial liabilities</b>		<b>222,428</b>	<b>12,068</b>	<b>82,845</b>	<b>426,983</b>	<b>38,891</b>	-	<b>783,215</b>
Deposits by customers		68,120	-	132	-	40	-	68,262
Other financial liabilities		6,555	-	-	-	-	-	6,555
<b>Total non-interest bearing financial liabilities</b>		<b>74,675</b>	-	<b>132</b>	-	<b>40</b>	-	<b>74,817</b>
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>297,103</b>	<b>12,068</b>	<b>82,977</b>	<b>426,983</b>	<b>38,931</b>	-	<b>858,032</b>
Interest sensitivity gap		11,438	15,943	56,875	(155,785)	220,759	-	
<b>Cumulative interest sensitivity gap</b>		<b>11,438</b>	<b>27,381</b>	<b>84,256</b>	<b>(71,529)</b>	<b>149,230</b>	<b>149,230</b>	
Liquidity gap		(32,389)	15,943	56,743	(155,785)	221,534	54	
<b>Cumulative liquidity gap</b>		<b>(32,389)</b>	<b>(16,446)</b>	<b>40,297</b>	<b>(115,488)</b>	<b>106,046</b>	<b>106,046</b>	

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Georgian Lari)

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

Demand deposits by customers are included in the up to 1 month liquidity category, as contractually any amount at reporting date can be withdrawn upon the customer's demand. The main deposit holders of the Bank are borrowers which under the loan agreements are required to have an operational accounts and maintain certain turnover ratios through the Bank.

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2022 Total
<i>Fixed interest rate instruments</i>							
Due to financial institutions	2.23%	1,949	-	245,068	197,147	-	444,164
Deposits by customers	6.75%	165,377	6,640	60,072	38,578	7,864	278,531
Debt securities issued	4%	-	-	962	24,491	-	25,917
Lease liability	5.37%	82	156	641	1,602	-	2,481
Subordinated debt	4.50%	33	197	916	4,867	27,780	33,793
<b>Total fixed interest bearing financial liabilities</b>		<b>167,441</b>	<b>6,993</b>	<b>307,659</b>	<b>266,685</b>	<b>35,644</b>	<b>784,886</b>
<i>Non-interest bearing instruments</i>							
Deposits by customers		57,223	4,203	352	897	-	62,675
Other financial liabilities		10,511	-	-	-	-	10,511
<b>Total non-interest bearing financial liabilities</b>		<b>67,734</b>	<b>4,203</b>	<b>352</b>	<b>897</b>	<b>-</b>	<b>73,186</b>
<b>Total financial liabilities</b>		<b>235,175</b>	<b>11,196</b>	<b>308,011</b>	<b>267,582</b>	<b>35,644</b>	<b>858,072</b>

	Weighted average EIR	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2021 Total
<i>Fixed interest rate instruments</i>							
Due to financial institutions	2.23%	66	1,770	38,333	407,274	-	447,445
Deposits by customers	6.75%	222,516	10,302	46,711	39,743	8,621	327,893
Lease liability	5.37%	86	171	750	1,362	-	2,369
Subordinated debt	4.50%	119	227	1,059	5,625	33,511	40,541
<b>Total fixed interest bearing financial liabilities</b>		<b>222,789</b>	<b>12,470</b>	<b>86,853</b>	<b>454,004</b>	<b>42,132</b>	<b>818,248</b>
<i>Non-interest bearing instruments</i>							
Deposits by customers		68,120	-	132	-	40	68,292
Other financial liabilities		6,555	-	-	-	-	6,555
<b>Total non-interest bearing financial liabilities</b>		<b>74,675</b>	<b>-</b>	<b>132</b>	<b>-</b>	<b>40</b>	<b>74,847</b>
<b>Total financial liabilities</b>		<b>297,464</b>	<b>12,470</b>	<b>86,985</b>	<b>454,004</b>	<b>42,172</b>	<b>893,095</b>

the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

### Market risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, etc. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest rate margin. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

### Interest rate sensitivity

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Bank's management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

Main tool for management on interest rate risk in the bank is establishment and monitoring of limits on interest rate GAP. According to market risk management policy of the Bank limit on interest rate GAP is established taking into consideration that loss caused by changes on interest rates by 2%, should not exceed 12% of net interest income stated in the budget of the year.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax based on asset values as at December 31, 2022 and 2021:

	As at December 31, 2022		As at December 31, 2021	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
<b>Non-derivative financial assets:</b>				
Cash and cash equivalents	2,157	(2,157)	1,785	(1,785)
Deposits by banks	22	(22)	-	-
Mandatory cash balance with the NBG	2,593	(2,593)	2,017	(2,017)
Loans to customers	12,848	(12,848)	14,501	(14,501)
Investments in debt securities	346	(346)	346	(346)
<b>Non-derivative financial liabilities:</b>				
Due to financial institutions	(8,591)	8,591	(8,660)	8,660
Deposits by customers	(5,384)	5,384	(6,339)	6,339
Debt securities issued	(472)	472	-	-
Lease liability	(45)	45	(44)	44
Subordinated debt	(542)	542	(621)	621
<b>Net impact on profit before tax</b>	<b>2,932</b>	<b>(2,932)</b>	<b>2,985</b>	<b>(2,985)</b>

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

Impact on shareholders' equity:

	As at December 31, 2022		As at December 31, 2021	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
<b>Non-derivative financial assets:</b>				
Cash and cash equivalents	1,833	(1,833)	1,517	(1,517)
Mandatory cash balance with the NBG	19	(19)	1,714	(1,714)
Loans to customers	2,204	(2,204)	12,326	(12,326)
Investments in debt securities	10,921	(10,921)	294	(294)
<b>Non-derivative financial liabilities:</b>				
Due to financial institutions	(7,302)	7,302	(7,361)	7,361
Deposits by customers	(4,576)	4,576	(5,388)	5,388
Debt securities issued	(401)	401	-	-
Lease liability	(38)	38	(37)	37
Subordinated debt	(461)	461	(528)	528
<b>Net impact on equity</b>	<b>2,198</b>	<b>(2,198)</b>	<b>2,537</b>	<b>(2,537)</b>

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position, which gives the Bank an opportunity to minimize losses from national currency fluctuations towards its foreign currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBG.

The Bank's open positions by the major currencies in which it holds the assets and liabilities are presented below:

	GEL	USD	EUR	Other currency	December 31, 2022
		USD 1 = GEL 2.7020	EUR 1 = GEL 2.8844		Total
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	77,336	45,013	8,865	1,060	132,274
Mandatory cash balance with the NBG	-	72,258	57,390	-	129,648
Due from financial institutions	-	724	-	391	1,115
Loans to customers	196,053	217,876	228,461	-	642,390
Investments in equity instruments	54	-	-	-	54
Investments debt instruments	17,323	-	-	-	17,323
Other financial assets	318	18,986	-	-	19,304
<b>TOTAL FINANCIAL ASSETS</b>	<b>291,084</b>	<b>354,857</b>	<b>294,716</b>	<b>1,451</b>	<b>942,108</b>
<b>FINANCIAL LIABILITIES</b>					
Due to financial institutions	-	161,692	267,873	-	429,565
Deposits by customers	156,426	147,363	26,615	1,484	331,888
Debt securities issued	-	23,606	-	-	23,606
Lease liability	190	2,062	-	-	2,252
Subordinated debt	-	27,091	-	-	27,091
Other financial liabilities	8,800	271	1,432	8	10,511
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>165,416</b>	<b>362,085</b>	<b>295,920</b>	<b>1,492</b>	<b>824,913</b>
<b>OPEN POSITION</b>	<b>125,668</b>	<b>(7,228)</b>	<b>(1,204)</b>	<b>(41)</b>	

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	GEL	USD USD 1 = GEL 3.0976	EUR EUR 1 = GEL 3.0540	Other currency	December 31, 2021 Total
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	77,246	24,939	13,793	191	116,169
Mandatory cash balance with the NBG	-	58,700	42,135	-	100,835
Due from financial institutions	-	815	-	-	815
Loans to customers	200,431	287,366	237,234	-	725,031
Investments in equity instruments	54	-	-	-	54
Investments debt instruments	17,309	-	-	-	17,309
Other financial assets	284	2,333	1,332	-	3,949
<b>TOTAL FINANCIAL ASSETS</b>	<b>295,324</b>	<b>374,153</b>	<b>294,494</b>	<b>191</b>	<b>964,162</b>
<b>FINANCIAL LIABILITIES</b>					
Due to financial institutions	-	163,759	269,219	-	432,978
Deposits by customers	193,804	165,257	26,130	75	385,266
Lease liability	270	1,936	-	-	2,206
Subordinated debt	-	31,057	-	-	31,057
Other financial liabilities	3,446	1,587	1,463	59	6,555
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>197,520</b>	<b>363,596</b>	<b>296,812</b>	<b>134</b>	<b>858,062</b>
<b>OPEN POSITION</b>	<b>97,804</b>	<b>10,557</b>	<b>(2,318)</b>	<b>57</b>	

### Currency risk sensitivity

The following table details the Bank's sensitivity to a 25% increase and decrease in the USD against the GEL. 25% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 25% change in foreign currency rates.

Impact on net profit and equity based on asset values as at December 31, 2022 and 2021:

	As at December 31, 2022		As at December 31, 2021	
	GEL/USD 25%	GEL/USD (25%)	GEL/USD 25%	GEL/USD (25%)
Impact on profit or loss	(1,807)	1,807	2,639	(2,639)
Impact on equity	(1,536)	1,536	2,243	(2,243)

	As at December 31, 2022		As at December 31, 2021	
	GEL/EUR 25%	GEL/EUR (25%)	GEL/EUR 25%	GEL/EUR (25%)
Impact on profit or loss	(301)	301	(580)	580
Impact on equity	(256)	256	(493)	493

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

*(in thousands of Georgian Lari)*

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The sensitivity analysis do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

### **Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations. However, the bank does not own portfolio of securities traded in the market.

### **Operational 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. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

### 29. Transactions with related parties

Details of transactions between the Bank and its related parties are disclosed below:

	December 31, 2022		December 31, 2021	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Cash and cash equivalents	2,342	132,273	4,352	116,169
- the parent	1,925	-	3,750	
- other related parties	417	-	602	
Gross loans to customers	597	660,528	790	746,561
- key management personnel of the Bank	320	-	446	
- other related parties	277	-	344	
Allowance for expected credit losses/impairment losses on loans to customers	(6)	(18,137)	(1)	(21,530)
- key management personnel of the Bank	(2)	-	(1)	
- other related parties	(4)	-	-	
Due to financial institutions	427,615	429,565	432,910	432,978
- the parent	427,615	-	432,910	
Deposits by customers	886	331,888	1,016	385,266
- key management personnel of the Bank	192	-	228	
- other related parties	694	-	788	
Subordinated debt	27,091	27,091	31,057	31,057
- the parent	27,091		31,057	

The remuneration of directors and other members of key management were as follows:

	2022		2021	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
<b>Key management personnel compensation:</b>				
- short-term employee benefits	1,142	12,318	805	10,991
<b>Total</b>	<b>1,142</b>	<b>12,318</b>	<b>805</b>	<b>10,991</b>

Included in the statement of profit or loss and other comprehensive income for the year ended December 31, 2022 and 2021 are the following amounts which were recognised in transactions with related parties:

# JOINT STOCK COMPANY HALYK BANK GEORGIA

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Georgian Lari)

	2022		2021	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income calculated using the effective interest rate	64	65,225	55	39,943
- key management personnel of the entity or its parent	34	-	41	-
-Other related parties	31	-	14	-
Interest expense	(9,098,)	(30,171)	(9,091)	(14,340)
-parent	(8,818)	-	(9,081)	-
- key management personnel of the Bank	(2)	-	(2)	-
- other related parties	(278)	-	(7)	-
Fee and commission expense	(56)	(2,645)	(98)	(1,860)
-parent	(56)	-	(98)	-
Net (loss)/gain on foreign exchange operations	5	(309)	(2)	3,382
-parent	5	-	(2)	-
Operating expenses	(1,161)	(21,616)	(811)	(17,756)
-key management personnel	(1,161)	-	(811)	-

### 30. Subsequent events

In February 2023 the Bank has disposed all assets classified under “Assets classified as held for sale”. Subsequent to the year end, no other events occurred that requires disclosure in the financial statements or adjustments to the reported figures.