JSC ISBANK GEORGIA

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2023

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To the Shareholder and Management of JSC Isbank Georgia

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Isbank Georgia (the "Bank") as at 31 December 2023, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018 and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the Management Report.

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

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

When we read the Management Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We will also issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of Bank and its circumstances, which we obtained during our audit. Our updated report will include also our opinion on the matters mentioned in the preceding paragraph.

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 International Financial Reporting Standards, with the requirements of the order N284/04 of the President of the National Bank of Georgia dated 26 December 2018 and with the requirements of 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 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.

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Levan Kankava (Reg.# SARAS-A-592839)

4 July 2024
Tbilisi, Georgia

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.

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PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Levan Kankava (Reg.# SARAS-A-592839)

4 July 2024
Tbilisi, Georgia

(In thousands of GEL)

	Notes	31 December 2023	31 December 2022 (Restated)	31 December 2021 (Restated)
ASSETS				
Cash and cash equivalents	8	77,287	57,785	52,038
Amounts due from banks	9	-	-	8,745
Mandatory reserves at the National Bank of Georgia	10	35,988	39,030	38,427
Loans to customers	11	328,817	307,154	260,026
Investment securities	12	11,538	2,353	14,459
Property, equipment, intangible and Right-of-use assets	13	8,134	6,988	8,073
Other assets	14	2,922	2,796*	3,653*
TOTAL ASSETS		**464,686**	**416,106***	**385,421***
LIABILITIES				
Amounts due to credit institutions	15	109,832	83,628	90,982
Amounts due to customers	16	173,122	149,293*	106,747*
Other borrowed funds	17	39,233	57,050*	73,185*
Deferred tax liabilities	23	641	764	1,002
Other liabilities	14	7,800	8,024*	9,074*
TOTAL LIABILITIES		**330,628**	**298,759***	**280,990***
EQUITY				
Share capital		69,162	69,162	69,162
Fair value reserve for investment securities		-	(87)	(490)
Retained earnings		64,896	48,272	35,759
TOTAL EQUITY		**134,058**	**117,347**	**104,431**
TOTAL LIABILITIES AND EQUITY		**464,686**	**416,106***	**385,421***

*Certain amounts do not correspond to the 2022 and 2021 financial statements as they reflect the restatements as described in Note 3.

Approved for issue and signed on behalf of the Management on 4 July 2024 by:

Hüseyin Emre Yılmaz	**Ucha Saralidze**
Chief Executive Officer	**Chief Financial Officer**

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Approved for issue and signed on behalf of the Management on 4 July 2024 by:

Hüseyin Emre Yılmaz
Chief Executive Officer

Ucha Saralidze
Chief Financial Officer

(In thousands of GEL)

	Notes	2023	2022 (Restated)	2021 (Restated)
Interest income calculated using effective interest rate		36,917	29,780	22,365
Interest expense		(11,595)	(7,397)*	(4,742)*
Net interest income	18	**25,322**	**22,383***	**17,623***
Fee and commission income		3,326	3,238	3,414
Fee and commission expense		(563)	(1,395)	(1,694)
Net fee and commission income	19	**2,763**	**1,843**	**1,720**
Gains less losses from trading in foreign currencies		3,270	2,956	3,408
Foreign exchange translation losses		(304)	(1,057)	(1,885)
Net foreign exchange gain		**2,966**	**1,899**	**1,523**
Losses from disposal of investment securities measured at fair value through other comprehensive income		(87)	(118)	-
Expected credit loss	20	(293)	(1,379)	(56)
Operating income after credit loss		**30,671**	**24,628***	**20,810***
Personnel expenses	21	(5,469)	(4,821)	(4,867)
Other income		60	-	70
Other expenses	22	(4,417)	(4,030)*	(3,806)*
Profit before income tax		**20,845**	**15,777**	**12,207**
Income tax expense	23	(4,221)	(3,264)	(1,626)
Profit for the year		**16,624**	**12,513**	**10,581**
Movement in fair value of investment securities measured at fair value through other comprehensive income		87	485	(427)
Income tax effect on other comprehensive income	23	-	(82)	64
Other comprehensive income / (loss) for the year		87	403	(363)
Total comprehensive income for the year		**16,711**	**12,916**	**10,218**

*Certain amounts do not correspond to the 2022 and 2021 financial statements as they reflect the restatements as described in Note 3.

(In thousands of GEL)

	Share capital	Fair value reserve for investment securities	Retained earnings	Total equity
Balances as at 31 December 2020	**69,162**	**(127)**	**25,178**	**94,213**
Profit for the year	-	-	10,581	**10,581**
Other comprehensive loss for the year	-	(363)	-	**(363)**
Total comprehensive loss for the year	**-**	**(363)**	**10,581**	**10,218**
Balances as at 31 December 2021	**69,162**	**(490)**	**35,759**	**104,431**
Profit for the year	-	-	12,513	**12,513**
Other comprehensive income for the year	-	403	-	**403**
Total comprehensive income for the year	**-**	**403**	**12,513**	**12,916**
Balances as at 31 December 2022	**69,162**	**(87)**	**48,272**	**117,347**
Profit for the year	-	-	16,624	**16,624**
Other comprehensive income for the year	-	87	-	**87**
Total comprehensive income for the year	**-**	**87**	**16,624**	**16,711**
Balances as at 31 December 2023	**69,162**	**-**	**64,896**	**134,058**

(In thousands of GEL)

	Notes	2023	2022 (Restated)	2021 (Restated)
Cash flows from operating activities				
Profit before income tax		20,845	15,777	12,207
Adjustment for:				
Depreciation and amortization	22	1,107	1,234	1,281
Interest income calculated using effective interest rate	18	(36,917)	(29,780)	(22,365)
Interest expense	18	11,595	7,185	4,652
Expected credit loss	20	293	1,379	56
Losses/(gains) from disposal of PPE	13	24	(85)	360
Net foreign exchange gain		333	(1,899)	(1,523)
Losses from disposal of investment securities measured at fair value through other comprehensive income		87	-	-
Cash flows used in operating activities before changes in operating assets and liabilities		**(2,633)**	**(6,189)**	**(5,332)**
Decrease/(increase) in mandatory reserves at the National Bank of Georgia		3,933	(7,950)	(6,062)
Decrease/(increase) in amounts due from banks		-	286	(3,884)
Increase in loans to customers		(21,197)	(77,084)	(38,887)
(Increase)/decrease in other assets		(126)	1,426	2,342
Increase/(decrease) in deposits and balances from banks		23,449	11,427	(31,726)
Increase in current accounts and deposits from customers		24,670	59,923*	38,066*
Increase/(decrease) in other liabilities		793	(587)*	(1,000)*
Cash flows from/(used in) operations before interest and tax		**28,889**	**(18,748)***	**(46,483)***
Interest receipts		36,484	29,279	23,108
Interest payments		(10,627)	(6,847)	(4,431)
Income tax paid		(4,884)	(3,646)*	(384)*
Cash flows from/(used in) operations		**49,862**	**38**	**(28,190)**
Cash flows from investing activities				
Purchases of investment securities		(12,291)	(3,210)	(19,610)
Receipts from investment securities		3,263	14,753	22,088
Purchases of property, equipment and intangible assets	13	(2,229)	(64)	(464)
Cash (used in)/from investing activities		**(11,257)**	**11,479**	**2,014**
Cash flows from financing activities				
Receipts from other borrowed funds	17	-	8,653	51,831
Repayments of other borrowed funds	17	(18,492)	(13,287)	(4,771)
Repayments of principal portion of lease liabilities	14	(684)	(801)	(955)
Cash flows (used in)/from financing activities		**(19,176)**	**(5,435)**	**46,105**
Net increase in cash and cash equivalents		**19,429**	**6,082**	**19,929**
Effect of exchange rate changes on cash and cash equivalents		73	(335)	(376)
Cash and cash equivalents as at the beginning of the year	8	57,785	52,038	32,485
Cash and cash equivalents as at the end of the year	8	**77,287**	**57,785**	**52,038**

*Certain amounts do not correspond to the 2022 and 2021 financial statements as they reflect the restatements as described in Note 3.

1 Introduction

JSC Isbank Georgia (hereinafter the "Bank") is a joint stock company, incorporated on 29 June 2015 in accordance with legislation of Georgia. The Bank operates under a general banking license (N: 368) issued by the National Bank of Georgia ("NBG") on 1 August 2015. The Bank is registered by the LEPL National Agency of Public Registry and the registration number is 404496611.

Before reorganization (1 August 2015) the Bank was presented as Batumi Branch of JSC Isbank Turkey (the "Branch") registered on 13 July 2012 by the National Bank of Georgia (License N: 908) as a branch of a foreign bank Türkiye İş Bankası Anonim Şirketi (the "Parent" or the "Shareholder") which was incorporated in Turkey in 1924.

Principal activity. The Bank's principal activities include the following: accepts deposits from the public and provide credit, transfers payments in Georgia as well as abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Main office of the Bank is in Tbilisi, Georgia and as at 31 December 2023, 31 December 2022 and 31 December 2021 it has two branches located in Tbilisi and Batumi.

Registered address and place of business. The Bank's registered legal address is 72a Ilia Chavchavadze Avenue, Tbilisi, Georgia.

As at 31 December 2023, 2022 and 2021 the Bank's 100% shareholder was JSC Isbank Turkey.

As at December 31, 2023, 38.2% of the JSC Isbank Turkey shares are owned by T. İş Bankası A.Ş. Supplementary Pension Fund (Fund), 28.09% are owned by the Republican People's Party- CHP (Atatürk's shares) and 33.71% are on free float (December 31, 2022: 37.31%, 28.09% and 34.60%, respectively. December 31, 2021: 37.26%, 28.09%, 34.65%, respectively).

2 Operating Environment of the Bank

The Bank's operations are located in Georgia. Consequently, the Bank is exposed to the economic and financial markets of Georgia, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Georgia.

Despite global factors, economy grew 7%, inflation rate reached 2.5% for 2023 in Georgia. The real GDP growth is mainly driven by the increased export, tourism income and acceleration of remittances related to the inflow of migrants/tourists from Russia, Ukraine and Belarus since the start of the conflict in Ukraine. Georgian 'Lari' appreciated against the USD on balance by 9.87% in 2023. Sources: www.geostat.ge www.nbg.ge

The recent events, including inflation, did not have a significant impact on the Expected Credit Loss (ECL)

Climate change. The management has taken note of global awareness and concerns about the potential impact of climate change. The Bank adapted Environmental and Social Risk Management policy, which describes the Bank's commitment to sustainable finance as an integral component of responsible corporate governance. The Bank reviewed its exposure to climate-related risks and did not identify any risks that could significantly impact the financial performance or position of the Bank as at 31 December 2023. The management estimates that current composition and maturity structure of the loan portfolio shows that the largest part of the portfolio is less vulnerable to the climate risk. The management continues to monitor developments in this area and will respond as necessary to ensure the Bank's viability and will adopt all government guidelines when these are issued in the markets in which the Bank operates.

3 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through other comprehensive income ("FVOCI") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Bank presents comparative information for all amounts reported in the current period's financials statement for two preceding periods – years ended 31 December 2022 and 2021. The Bank's management considers such disclosure more useful and informative for the stakeholders of the Bank.

Functional and presentation currency. The national currency of Georgia is the Georgian Lari ("GEL" or "₾"), which is the Bank's functional and presentation currency. These financial statements are presented in thousands of Georgian Lari ("GEL") except where otherwise stated.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the official exchange rate set by the National Bank of Georgia at the reporting date. Gains or losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on revaluation are recognized in profit or loss.

The exchange rates used by the Bank in the preparation of the financial statements as at 31 December 2023, 31 December 2022 and 31 December 2021 are as follows:

	2023	**2022**	**2021**
1 US Dollar / ₾	2.6894	2.7020	3.0976
1 Euro / ₾	2.9753	2.8844	3.5040
1 TRY / ₾	0.0910	0.1443	0.2379
1 GBP / ₾	3.4228	3.2581	4.1737

Presentation of financial statements. The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets /liabilities of the corresponding financial statement line items. Analysis regarding recovery or settlement within 12 months after the reporting date (current) and more 12 months after the reporting date (non-current) is presented in Note 25.

(In thousands of GEL)

3 Basis of Preparation (Continued)

Changes in presentation and correction of errors. During the year, the Bank has amended the presentation and wrong classification of certain items described below within the statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows. In accordance with IAS 8, the change been made retrospectively, and comparatives have been reclassified accordingly:

- In the statement of financial position, the management has reclassified cash cover included in other liabilities in the amount of GEL 1,318 thousand (2021: GEL 1,513 thousand) to amounts due to customers, as cash covers represent pledged cash collaterals (maintained in the current accounts) against issued loans or guarantees to customers, hence, meeting the deposit classification. Mentioned correction resulted in the restatement of the statement of cash flows. GEL 1,318 thousand (2021: GEL 1,513 thousand) have been reclassified from the increase/(decrease) in other liabilities to increase in current accounts and deposits from customers.
- In the statement of financial position, the management has corrected prepaid fees (transaction cost) on other borrowed funds in the amount of GEL 546 thousand (2021: GEL 597 thousand) and reclassified them from other assets to other borrowed funds. These fees are direct and integral part of the borrowed funds, hence, to be capitalised on the balance of the financial instrument.
- In the statement of profit or loss and other comprehensive income, the management has reclassified interest expense on lease liability included in other expenses in the amount of GEL 212 thousand (2021: GEL 90 thousand) to interest expense, as this financial statement line item includes interest expense related to all financial liabilities.
- In the statement of cash flow, the management has reclassified income tax paid during the period from the changes in other liabilities to income tax paid line item in the statement of cash flows, in order to demonstrate income taxes paid separately on the face of the financial statements. Amount of reclassification – GEL 3,646 thousand (2021: GEL 288 thousand)

The following items of the prior period statement of financial position, statement of profit or loss and other comprehensive income and statement of cash flows were restated:

Statement of Financial Position as at 31 December 2022:

	As originally presented	Restatement	As restated
Other assets	3,342	(546)	2,796
Total assets	**416,652**	**(546)**	**416,106**
Amounts due to customers	147,975	1,318	149,293
Other borrowed funds	57,596	(546)	57,050
Other liabilities	9,342	(1,318)	8,024
Total liabilities	**299,305**	**(546)**	**298,759**
Total liabilities and equity	**416,652**	**(546)**	**416,106**

(In thousands of GEL)

3 Basis of Preparation (Continued)

Statement of Financial Position as at 31 December 2021:

	As originally presented	Restatement	As restated
Other assets	4,250	(597)	3,653
Total assets	**386,018**	**(597)**	**385,421**
Amounts due to customers	105,234	1,513	106,747
Other borrowed funds	73,782	(597)	73,185
Other liabilities	10,587	(1,513)	9,074
Total liabilities	**281,587**	**(597)**	**280,990**
Total liabilities and equity	**386,018**	**(597)**	**385,421**

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2022:

	As originally presented	Restatement	As restated
Interest expense	(7,185)	(212)	(7,397)
Net interest income	**22,595**	**(212)**	**22,383**
Operating income after credit loss	**24,840**	**(212)**	**24,628**
Other expenses	(4,242)	212	(4,030)

(In thousands of GEL)

3 Basis of Preparation (Continued)

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021:

	As originally presented	Restatement	As restated
Interest expense	(4,652)	(90)	(4,742)
Net interest income	**17,713**	**(90)**	**17,623**
Operating income after credit loss	**20,900**	**(90)**	**20,810**
Other expenses	(3,896)	90	(3,806)

Statement of cash flows for the year ended 31 December 2022:

	As originally presented	Restatement	As restated
Increase in current accounts and deposits from customers	58,605	1,318	59,923
Increase/(decrease) in other liabilities	(2,915)	2,328	(587)
Cash flows from/(used in) operations before interest and tax	**(22,394)**	**3,646**	**(18,748)**
Income tax paid	-	(3,646)	(3,646)

Statement of cash flows for the year ended 31 December 2021:

	As originally presented	Restatement	As restated
Increase in current accounts and deposits from customers	36,553	1,513	38,066
Increase/(decrease) in other liabilities	225	(1,225)	(1,000)
Cash flows from/(used in) operations before interest and tax	**(46,771)**	**288**	**(46,483)**
Income tax paid	(96)	(288)	(384)

4 Material Accounting Policy Information

Initial recognition of financial instruments. Financial instruments at FVOCI are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

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

Financial assets impairment – expected credit loss (ECL) allowance. The Bank assesses, on a forward-looking basis, the ECL for financial assets measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The bank measures ECL and recognises credit loss allowance at each reporting date.

The Bank applies a three stage model for impairment. The approach is summarised as follows:

- Stage 1: The Bank recognises a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity;
- Stage 2: The Bank recognises a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of financial instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial instruments in stage 2 are not yet deemed to be credit-impaired;
- Stage 3: If the financial instrument is credit-impaired, it is then moved to stage 3. The Bank recognise a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Defaults (PD) of 100% for financial instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirement of IFRS 9 are classified into one of the above three stages.

Key judgment and estimates used under IFRS 9 are disclosed in note 5.

Financial assets – derecognition and modification. The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank assesses whether the modification of contractual cash flows is substantial, in which it considers certain qualitative and quantitative factors combined. Qualitative criteria may include significant change in the structure of the loan facility, change in counterparty, change in the contractual interest rates due to market environment changes.

4 Material Accounting Policy Information (Continued)

For the quantitative assessment, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is substantial (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If above mentioned qualitative and quantitative criteria are not met, then modification does not result in derecognition.

Write-off. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Once the loan is in overdue, the problematic debt collection process is started. The loan is transferred to problem asset manager, who is trying to contact the borrower and find a solution for covering the loan. If there is no any result within the 90 days, court actions are undertaken, which may last for 3 or 4 years, including all steps of the process.

The management believes that around 4 years are needed to conclude that there is no reasonable expectation of recovery and the asset should be written off.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC.

Impairment of non-financial assets. Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include notes and coins on hand, amounts due from National Bank of Georgia (NBG), excluding mandatory reserves, and other highly liquid financial assets with original maturities of less than three month. Cash and cash equivalent are carried at amortised cost.

Amounts due from banks. Amounts due from banks are recorded when the Bank advances money to counterparty banks. Amounts due from banks are initially recognized at fair value and are subsequently measured at amortized cost (AC) using the effective interest method when: they are held for the purposes of collecting contractual cash flows and cash flows represent SPPI, Amounts due from banks are carried net of any allowances for impairment losses.

Mandatory reserves with NBG. as financial assets are carried at amortised cost and represent mandatory reserve deposits that are not available to finance the Bank's day-to-day operations.

Loans to customers. Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Impairment allowances are determined based on the forward-looking ECL models. Note 25 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

4 Material Accounting Policy Information (Continued)

Investment securities. Investment securities include Government bonds. The Bank classifies investment securities as carried at AC or FVOCI. Securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI. Securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit of loss for the year. All other changes in the carrying value are recognised in OCI. When the security ise derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Property and equipment. Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position-refer to the accounting policy in below. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	5 years
Computers and office equipment	5-10 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Right-of-use assets	lease term

An asset should be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the assets is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets. Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range up to 10 years.

Right-of-use assets. The Bank recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Right-of-use assets are also subject to impairment.

Repossessed assets The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

4 Material Accounting Policy Information (Continued)

Amounts due to customers. Amounts due to customers are non-derivative liabilities to individuals or corporate customers and are carried at AC.

Other borrowed funds. Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss when the borrowings are derecognised as well as through the amortisation process. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of profit or loss.

Lease liabilities. At the Commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

Financial guarantees, performance guarantees, letters of credit and undrawn loan commitments. The Bank issues financial guarantees, performance guarantees, letter of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation, they are initially recognised in the financial statements at fair value.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre–specified terms to the customer. Similar to financial guarantee contracts these contracts are in the scope of the ECL requirements.

Share Capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Dividends. The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Georgian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

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

4 Material Accounting Policy Information (Continued)

Under IFRS 9, interest income is recorded using the effective interest rate method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the effective interest rate method. Interest expense is also calculated using the effective interest rate method for all financial liabilities held at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets or liabilities, or, when appropriate, a shorter period, to the gross carrying amount of the financial asset. The effective interest rate (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial assets, as well as fees and costs are an integral part of the effective interest rate. The effective interest rate calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets or liabilities cash flows are revised for reasons other than credit risk, than changes to future contractual cash flows are discounted at the original effective interest rate with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in interest revenue/ expense calculated using the effective interest method.

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

Loan origination fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest revenue over the estimated life of the financial instrument using the effective interest method.

Fee and commission income. The Bank earns fee and commission income from a diverse range of financial services it provides to its customers.

Fee and commission income is recognised at an amount that reflects the considerations to which the Bank expects to be entitled in exchange for providing services. The Bank earns significant part of fee and commission income mainly from the guarantees issued, settlement and other operations.

Fee income earned from guarantees issued - Fees earned for the guarantees include fixed monthly or quarterly commission income, earned through the maturity of the guarantee agreement.

Fee income earned from settlement and other operations - The fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, merchant fees, account opening and maintenance fees, fees for cash settlements, collection, or cash disbursements, etc.

Credit enhancements. The Bank seeks to use collateral to mitigate its credit risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis.

4 Material Accounting Policy Information (Continued)

Contingencies. Contingent liabilities are not recognised in the statements 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.

Taxation. Income taxes are provided in the financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting. The income tax comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in the other comprehensive income because it is related to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount or revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could results in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Significant Increase in Credit Risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgment. In assessing whether the credit risk has significantly increased the Bank has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. The Bank has established general trigger events for individually significant and collectively assessed loans.

Measurement of expected credit losses (ECL)

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of defaults (PD), loss given defaults (LGD), exposure at default (EAD) and loss given liquidation of collateralized exposure (LGL) which are further explained below:

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Probability of Defaults (PD): The bank estimates PD based on a combination of rating model calibration results and a migration matrices approach which is further adjusted for macroeconomic expectations for all portfolios, to represent the forward-looking estimators of the PD parameters. With the forecasted conditional PD's migration matrices are constructed, from which unconditional marginal PD's are calculated that are further adjusted by age of the instrument in the portfolio. Since stage 3 financial instruments are defaulted, the probability of default in this case is equal to 100%.

Exposure at Defaults (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. For Stage 1, the EAD are calculated as outstanding amount of loans and off balance commitments that are expected to be impaired in the period of 12 month after reporting period. For Stage 2 financial instruments, the EAD is calculated for each contractual remaining year. EAD for each year is estimated as an outstanding amount by the reporting period minus the cumulative yearly principal repayments. The outstanding amount by the reporting period is calculated taking into account CCF and cash cover amounts. For Stage 3, the EAD is calculated as the outstanding amount of the instrument by the reporting date taking into account CCF and cash cover amounts.

Loss Given Default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in default event and therefore captures the severity of a loss. LGD rate are

Calculated for corporate and retail portfolios. LGD is statistically calculated based on historical loan recovery data and takes into account historical losses incurred on unsecured exposures. While calculating LGD, recoveries of outlier exposures are excluded from the calculation. LGD is expressed as a percentage of the EAD.

Loss Given Liquidation of collateralized exposures (LGL): LGL represents the percentage of the exposure that cannot be recovered from collateral liquidation if the exposure is defaulted. Loss Given Liquidation calculation takes into account LTV, adjusted by time to sale of movable and immovable collateral, real estate price index, EIR, and expected sales ratio of collaterals. For uncollateralized exposures LGD rate is used. AS for the partially collateralized exposure, unsecured part is calculated based on LGD while LGL is used for the secured part.

Macro-economic scenarios

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward-looking information obtainable without undue costs of effort, which takes into considerations past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Bank's allowance for credit losses, the Bank uses the macroeconomic forecasts provided By National Bank of Georgia. Macroeconomic variables covered by these forecasts and which the Bank incorporated in its ECL assessment model include GDP growth and foreign exchange rate. The determination of the probability weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Bank uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a baseline (weight 0.50) and downside (weight 0.25) scenario relevant for each respective portfolio. A weight is computed for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia. Refer to Note 25.

6 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2023:

In May 2017, the IASB issued IFRS 17, *Insurance Contracts*. IFRS 17 replaces IFRS 4 and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts that are in the scope of IFRS 17. In June 2020, the IASB issued Amendments to IFRS 17, introducing various changes to assist entities implementing the Standard, and moving an effective date to 1 January 2023.

Classification of performance guarantee contracts

The Bank analysed the performance guarantee contracts to assess whether they would meet the definition of insurance contracts in the scope of IFRS 17. The Bank has concluded that performance guarantee contracts expose the Bank primarily to credit risk of the applicant because (i) all the contracts require the customers who apply for a guarantee to fully collateralise their obligations to identify the Group as the issuer and (ii) there are no scenarios with commercial substance where the Bank would have to pay significant additional amounts to the holders of such guarantees. Accordingly, the Bank accounts for these contracts in accordance with IFRS 9.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments resulted in changes in presentation of these financial statements, primarily by removing accounting policies that do not represent material accounting policy information.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The adoption of the amendments did not have a material impact on these financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendment did not have a material impact on these financial statements

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023. The amendment does not have any implication yet for the Bank.

7 New Accounting Pronouncements

The Bank has not early adopted any of the amendments effective after 31 December 2023. The Bank expects the amendments will have an insignificant effect, when adopted, or is in the process of assessment of the scale of any potential impact on the financial statements of the Bank.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023). In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

7 New Accounting Pronouncements (Continued)

IFRS 18 Presentation and Disclosure in Financial Statements (Issued on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027). In April 2024, the IASB has issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. IFRS 18 will apply for reporting periods beginning on or after 1 January 2027 and also applies to comparative information.

IFRS 19 Subsidiaries without Public Accountability: Disclosures (Issued on 9 May 2024 and effective for annual periods beginning on or after 1 January 2027). The International Accounting Standard Board (IASB) has issued a new IFRS Accounting Standard for subsidiaries. IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. Applying IFRS 19 will reduce the costs of preparing subsidiaries' financial statements while maintaining the usefulness of the information for users of their financial statements. Subsidiaries using IFRS Accounting Standards for their own financial statements provide disclosures that maybe disproportionate to the information needs of their users. IFRS 19 will resolve these challenges by:

- enabling subsidiaries to keep only one set of accounting records – to meet the needs of both their parent company and the users of their financial statements;
- reducing disclosure requirements – IFRS 19 permits reduced disclosure better suited to the needs of the users of their financial statements.

Amendments to the Classification and Measurement of Financial Instruments - Amendments to IFRS 9 and IFRS 7 (issued on 30 May 2024 and effective for annual periods beginning on or after 1 January 2026). On 30 May 2024, the IASB issued amendments to IFRS 9 and IFRS 7 to:
(a) clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
(b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
(c) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
(d) update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

(In thousands of GEL)

8 Cash and Cash Equivalents

Cash and cash equivalents as at 31 December 2023, 31 December 2022 and 31 December 2021 comprise of following:

	31 December 2023	31 December 2022	31 December 2021
Cash on hand	1,847	3,279	2,974
Correspondent accounts with the NBG (other than mandatory reserve deposits)	463	799	19,477
Nostro accounts with other banks	38,115	47,714	7,180
Term deposits and overnight placements with the NBG with original maturities of less than three months	4,202	4,102	18,204
Term deposits and overnight placements with other banks with original maturities of less than three months	32,887	1,891	4,204
Total gross amount of cash and cash equivalents	**77,514**	**57,785**	**52,039**
Less: loss allowance for impairment by stages			
Stage 1	(227)	-	(1)
Total cash and cash equivalents	**77,287**	**57,785**	**52,038**

As at 31 December 2023 the Bank has a placement with three bank (2022: two banks; 2021: one bank) with carrying value that individually exceeds 10% of equity. The gross value of that balance as at 31 December 2023 is GEL 66,186 thousand (2022: GEL 47,625 thousand; 2021: GEL 37,677 thousand).

Credit ratings of nostro accounts with other banks stand as follows:

	31 December 2023	31 December 2022	31 December 2021
BB	37,993	-	-
BB-	-	47,626	6,052
B+	84	-	-
B		34	-
Not Rated	38	54	1,128
Less-allowance for impairment	(96)	-	-
Total nostro accounts with other banks	**38,019**	**47,714**	**7,180**

The table illustrates the ratings by international agency Fitch Ratings.

Term deposits and overnight placements with other banks with original maturities of less than three months stands as follow:

	31 December 2023	31 December 2022	31 December 2021
BB+	3,870	1,891	-
BB	12,182	-	-
BB-	-	-	-
B+	16,835	-	4,205
B-	-	-	-
Less-allowance for impairment	(119)	-	(1)
Total term deposits with other banks	**32,887**	**1,891**	**4,204**

(In thousands of GEL)

8 Cash and Cash Equivalents (Continued)

The table illustrates the ratings by international agency Fitch Ratings.

At the end of 2023, the bank had a deposit in the NBG Georgia in the amount of GEL 4,202 thousand (2022: GEL 4,102 thousand, 2021: GEL 18,204 thousand) and correspondent accounts with the NBG in the amount of GEL 463 thousand (2022: GEL 799 thousand, 2021: GEL 19,477 thousand), ECL recognised for deposit in the NBG as at 31 December 2023 amounted to GEL 11 thousand (2022: Nil, 2021: Nil) and ECL recognised for correspondent accounts with the NBG as at 31 December 2023 amounted to GEL 1 thousand (2022: Nil, 2021: NIL). For the Country rating of Georgia, please refer to note 10.

9 Amounts Due from Banks

Amounts due from banks as at 31 December 2023, 31 December 2022 and 31 December 2021 comprise of following:

	31 December 2023	31 December 2022	31 December 2021
With less than 1 year contractual maturity	-	-	8,751
With more than 1 year contractrual maturity	-	-	-
Expected credit loss	-	-	(6)
Total amount due from banks	**-**	**-**	**8,745**

Credit rating of Amounts due from banks stands as follow:

	31 December 2023	31 December 2022	31 December 2021
BB	-	-	-
B+	-	-	5,286
B-	-	-	3,459
Total amount due from banks	**-**	**-**	**8,745**

The table illustrates the ratings by international agency Fitch Ratings.

Amounts due to banks portfolio has changed completely as for 31 December 2022. All outstanding balances as at 31 December 2021 were settled with the Bank, and as at December 31, 2022, the Bank's balance sheet only reflects new transactions. Unlike previous years, where the bank only engaged in agreements when there was excess cash, in 2022, the focus shifted towards viewing these agreements as investments capable of generating a significant portion of revenue, rather than simply managing excess cash. Additionally, the Bank began to regard interbank loans as part of its loan portfolio, with their profitability matching or even surpassing that of loans to customers.

(In thousands of GEL)

10 Mandatory Reserves at the National Bank of Georgia

Mandatory reserves at the National Bank of Georgia (NBG) represents amounts deposits 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. The Bank's ability to withdraw these deposits is restricted by regulations.

	31 December 2023	31 December 2022	31 December 2021
Mandatory reserves at the National Bank of Georgia	36,079	39,030	38,427
Loss allowance for impairment	(91)	-	-
Total mandatory reserves at the National Bank of Georgia	**35,988**	**39,030**	**38,427**

In July 2023, Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at 'BB', with the positive outlook. The country ceiling is affirmed at 'BBB-', while short-term foreign and local-currency IDRs are kept at 'B'.

(In thousands of GEL)

11 Loans to Customers

Loans to customers as at 31 December 2023, 31 December 2022 and 31 December 2021 comprise of following:

	31 December 2023	31 December 2022	31 December 2021
Loans to legal entities			
Corporate lending	270,173	255,255	234,548
Small and medium business lending	9,949	25,124	19,849
Interbank loans	43,612	21,513	-
Total loans to legal entities	**323,734**	**301,892**	**254,397**
Loans to individuals			
Residential mortgage	2,889	3,785	2,946
Consumer lending	4,498	3,926	3,833
Total loans to individuals	**7,387**	**7,711**	**6,779**
Gross loans to customers	**331,121**	**309,603**	**261,176**
Less-allowance for impairment	(2,304)	(2,449)	(1,150)
Stage 1	(1,471)	(1,730)	(482)
Stage 2	-	(6)	(18)
Stage 3	(833)	(713)	(650)
Total loans to customers	**328,817**	**307,154**	**260,026**

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

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans to customers carried at amortised cost between the beginning and the end of the reporting period. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- New originated or purchased gives us information regarding gross loans and corresponding credit impairment losses issued during the period;
- The line, derecognised during the period refers to starting balance of loans which were repaid or during the period;
- Foreign exchange translations of assets denominated in foreign currencies;
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations.

(In thousands of GEL)

11 Loans to Customers (Continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2023 is as follows:

Corporate lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2023	**254,893**	**-**	**362**	**255,255**
New assets originated or purchased	212,334	-	-	**212,334**
Assets repaid	(197,481)	-	(362)	**(197,843)**
Foreign exchange adjustments	427	-	-	**427**
As at 31 December 2023	**270,173**	**-**	**-**	**270,173**

Corporate lending	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2023	**(1,393)**	**-**	**-**	**(1,393)**
New assets originated or purchased	(1,021)	-	-	**(1,021)**
Assets repaid	1,083	-	-	**1,083**
Net remeasurement of ECL	132	-	-	**132**
As at 31 December 2023	**(1,199)**	**-**	**-**	**(1,199)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2022 is as follows:

Corporate lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2022	**232,785**	**-**	**1,763**	**234,548**
New assets originated or purchased	175,799	-	**-**	**175,799**
Assets repaid	(143,202)	-	**(1,348)**	**(144,550)**
Foreign exchange adjustments	(10,489)	-	**(53)**	**(10,542)**
As at 31 December 2022	**254,893**	**-**	**362**	**255,255**

Corporate lending	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2022	**(405)**	**-**	**-**	**(405)**
New assets originated or purchased	(1,232)	-	**-**	**(1,232)**
Assets repaid	197	-	**-**	**197**
Net remeasurement of ECL	48	-	**-**	**48**
As at 31 December 2022	**(1,392)**	**-**	**-**	**(1,392)**

(In thousands of GEL)

11 Loans to Customers (Continued)

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

Corporate lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2021	**206,043**	-	**1,865**	**207,908**
New assets originated or purchased	165,181	-	-	**165,181**
Assets repaid	(133,637)	-	-	**(133,637)**
Foreign exchange adjustments	(4,802)	-	(102)	**(4,904)**
As at 31 December 2021	**232,785**	**-**	**1,763**	**234,548**

Corporate lending	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2021	**(571)**	**-**	**(37)**	**(608)**
New assets originated or purchased	(274)	-	**-**	**(274)**
Assets repaid	256	-	37	**293**
Net remeasurement of ECL	184	-	**-**	**184**
As at 31 December 2021	**(405)**	**-**	**-**	**(405)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to small and medium business lending during the year ended 31 December 2023 is as follows:

Small and medium business	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2023	**23,913**	**335**	**876**	**25,124**
New assets originated or purchased	7,863	-	277	**8,140**
Assets repaid	(22,523)	(55)	(740)	**(23,318)**
Foreign exchange adjustments	4	(1)	-	**3**
As at 31 December 2023	**9,257**	**279**	**413**	**9,949**

Small and medium business	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2023	**(143)**	**(4)**	**(297)**	**(444)**
New assets originated or purchased	(18)	-	(276)	**(294)**
Assets repaid	131	4	267	**402**
Net remeasurement of ECL	6	-	(106)	**(100)**
As at 31 December 2023	**(24)**	**-**	**(412)**	**(436)**

(In thousands of GEL)

11 Loans to Customers (Continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to small and medium business lending during the year ended 31 December 2022 is as follows:

Small and medium business	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2022	**18,263**	**492**	**1,094**	**19,849**
New assets originated or purchased	19,332	-	238	**19,570**
Assets repaid	(12,656)	(108)	(450)	**(13,214)**
Foreign exchange adjustments	(1,026)	(49)	(6)	**(1,081)**
As at 31 December 2022	**23,913**	**335**	**876**	**25,124**

Small and medium business	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2022	**(33)**	**(15)**	**(204)**	**(252)**
New assets originated or purchased	(137)	-	(238)	**(375)**
Assets repaid	18	1	142	**161**
Net remeasurement of ECL	8	10	3	**21**
As at 31 December 2022	**(144)**	**(4)**	**(297)**	**(445)**

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

Small and medium business	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2021	**20,422**	**39**	**2,166**	**22,627**
New assets originated or purchased	10,441	-	268	**10,709**
Assets repaid	(12,521)	(39)	(818)	**(13,378)**
Transfers to Stage 2	-	520	(520)	**-**
Foreign exchange adjustments	(78)	(28)	(3)	**(109)**
As at 31 December 2021	**18,264**	**492**	**1,093**	**19,849**

Small and medium business	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2021	**(21)**	**(15)**	**(103)**	**(139)**
New assets originated or purchased	(30)	-	(141)	**(171)**
Assets repaid	15	-	71	**86**
Transfers to Stage 2	-	15	(15)	**-**
Net remeasurement of ECL	3	(15)	(16)	**(28)**
As at 31 December 2021	**(33)**	**(15)**	**(204)**	**(252)**

(In thousands of GEL)

11 Loans to Customers (Continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Interbank loans during the year ended 31 December 2023 is as follows:

Interbank Loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2023	**21,513**	**-**	**-**	**21,513**
New assets originated or purchased	38,174	-	-	**38,174**
Assets repaid	(16,050)	-	-	**(16,050)**
Foreign exchange adjustments	(25)	-	-	**(25)**
As at 31 December 2023	**43,612**	**-**	**-**	**43,612**

Interbank Loans	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2023	**(47)**	**-**	**-**	**(47)**
New assets originated or purchased	(189)	-	-	**(189)**
Assets repaid	23	-	-	**23**
Net remeasurement of ECL	-	-	-	**-**
As at 31 December 2023	**(213)**	**-**	**-**	**(213)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Interbank loans during the year ended 31 December 2022 is as follows:

Interbank Loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2022	**-**	**-**	**-**	**-**
New assets originated or purchased	21,513	-	-	**21,513**
Assets repaid	-	-	-	**-**
Foreign exchange adjustments	-	-	-	**-**
As at 31 December 2022	**21,513**	**-**	**-**	**21,513**

Interbank Loans	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2022	**-**	**-**	**-**	**-**
New assets originated or purchased	(47)	-	-	**(47)**
Assets repaid	-	-	-	**-**
Net remeasurement of ECL	-	-	-	**-**
As at 31 December 2022	**(47)**	**-**	**-**	**(47)**

(In thousands of GEL)

11 Loans to Customers (Continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Residential mortgages during the year ended 31 December 2023 is as follows:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying values as at 1 January 2023	**3,429**	**-**	**356**	**3,785**
New assets originated or purchased	396	-	148	**544**
Assets repaid	(1,220)	-	(218)	**(1,438)**
Transfers to Stage 2	(349)	349	-	**-**
Foreign exchange adjustments	(1)	-	(1)	**(2)**
As at 31 December 2023	**2,255**	**349**	**285**	**2,889**

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as 1 January 2023	**(53)**	**-**	**(148)**	**(201)**
New assets originated or purchased	(2)	-	(98)	**(100)**
Assets repaid	44	-	94	**138**
Net remeasurement of ECL	-	-	-	**-**
As at 31 December 2023	**(11)**	**-**	**(152)**	**(163)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Residential mortgages during the year ended 31 December 2022 is as follows:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying values as at 1 January 2022	**2,577**	**-**	**369**	**2,946**
New assets originated or purchased	2,268	-	84	**2,352**
Assets repaid	(1,358)	-	(74)	**(1,432)**
Foreign exchange adjustments	(58)	-	(23)	**(81)**
As at 31 December 2022	**3,429**	**-**	**356**	**3,785**

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as 1 January 2022	**(8)**	**-**	**(124)**	**(132)**
New assets originated or purchased	(51)	-	(94)	**(145)**
Assets repaid	(6)	-	77	**71**
Net remeasurement of ECL	13	-	(8)	**5**
As at 31 December 2022	**(52)**	**-**	**(149)**	**(201)**

(In thousands of GEL)

11 Loans to Customers (Continued)

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

Residential mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2021	**2,773**	**144**	**1,269**	**4,186**
New assets originated or purchased	775	-	133	**908**
Assets repaid	(1,626)	(100)	(373)	**(2,099)**
Transfers to stage 1	810	(44)	(766)	**-**
Transfers to stage 3	(114)	-	114	**-**
Foreign exchange adjustments	(41)	-	(8)	**(49)**
As at 31 December 2021	**2,577**	**-**	**369**	**2,946**

Residential mortgages	Stage 1	Stage 2	Stage 3	Total
ECL as 1 January 2021	**(27)**	**-**	**(13)**	**(40)**
New assets originated or purchased	(19)	-	-	**(19)**
Assets repaid	26	-	-	**26**
Transfers to stage 1	1	-	(1)	**-**
Transfers to stage 3	(7)	-	7	**-**
Net remeasurement of ECL	18	-	(117)	**(99)**
As at 31 December 2021	**(8)**	**-**	**(124)**	**(132)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2023 is as follows:

Consumer lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2023	**3,593**	**-**	**333**	**3,926**
New assets originated or purchased	2,794	-	12	**2,806**
Assets repaid	(2,210)	-	(33)	**(2,243)**
Foreign exchange adjustments	9	-	-	**9**
As at 31 December 2023	**4,186**	**-**	**312**	**4,498**

Consumer lending	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	**(94)**	**-**	**(269)**	**(363)**
New assets originated or purchased	(13)	-	(23)	**(36)**
Assets repaid	83	-	23	**106**
Net remeasurement of ECL	-	-	-	**-**
As at 31 December 2023	**(24)**	**-**	**(269)**	**(293)**

(In thousands of GEL)

11 Loans to Customers (Continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2022 is as follows:

Consumer lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2022	**3,390**	**6**	**437**	**3,833**
New assets originated or purchased	2,771	-	15	**2,786**
Assets repaid	(2,529)	-	(154)	**(2,683)**
Foreign exchange adjustments	(7)	-	(3)	**(10)**
As at 31 December 2022	**3,625**	**6**	**295**	**3,926**

Consumer lending	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**(36)**	**(3)**	**(322)**	**(361)**
New assets originated or purchased	(74)	-	(24)	**(98)**
Assets repaid	26	1	72	**99**
Net remeasurement of ECL	(11)	-	7	**(4)**
As at 31 December 2022	**(95)**	**(2)**	**(267)**	**(364)**

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

Consumer lending	Stage 1	Stage 2	Stage 3	Total
Gross carrying values as at 1 January 2021	**2,628**	**64**	**594**	**3,286**
New assets originated or purchased	2,185	6	20	**2,211**
Assets repaid	(1,411)	(13)	(148)	**(1,572)**
Transfers to stage 1	82	(51)	(31)	**-**
Transfers to stage 3	(3)	-	3	**-**
Foreign exchange adjustments	(91)	-	(1)	**(92)**
As at 31 December 2021	**3,390**	**6**	**437**	**3,833**

Consumer lending	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	**(22)**	**-**	**(243)**	**(265)**
New assets originated or purchased	(50)	(3)	-	**(53)**
Assets repaid	29	-	24	**53**
Net remeasurement of ECL	7	-	(103)	**(96)**
As at 31 December 2021	**(36)**	**(3)**	**(322)**	**(361)**

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 25.

(b) Credit quality of loans to customers

The bank is working on implementation its own internal grading system, which will define credit risk category based on the several factors, which has impact on the quality of the loans to customers by business segment. Before implementation the mentioned internal grading system, the Bank is controlling its loan portfolio by four overdue buckets on daily basis and relevant actions are planned according to the information, retrieved after such analysis.

(In thousands of GEL)

11 Loans to Customers (Continued)

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

	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Corporate lending	**270,173**	**-**	**-**	**270,173**
not overdue	270,173	-	-	**270,173**
overdue more than 90 days	-	-	-	**-**
Interbank loans	**43,612**	**-**	**-**	**43,612**
not overdue	43,612	-	-	**43,612**
Small and medium business lending	**9,257**	**279**	**412**	**9,948**
not overdue	9,257	279	310	**9,846**
overdue less than 30 days	-	-	-	**-**
overdue more than 90 days	-	-	103	**103**
Total loans to legal entities	**323,042**	**279**	**413**	**323,734**

	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Residential mortgages	**2,255**	**349**	**285**	**2,889**
not overdue	2,255	-	285	**2,540**
overdue more than 30 days and less than 90 days	-	349	-	**349**
overdue more than 90 days	-	-	-	**-**
Consumer lending	**4,186**	**-**	**312**	**4,499**
not overdue	4,186	-	209	**4,395**
overdue more than 90 days	-	-	103	**103**
Total loans to individuals	**6,441**	**349**	**597**	**7,387**
Total gross loans to customers	**329,483**	**628**	**1,010**	**331,121**

The following table provides information on the credit quality of loans to customers as at 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Corporate lending	**254,893**	**-**	**362**	**255,255**
not overdue	254,893	-	-	**254,893**
overdue more than 90 days	-	-	362	**362**
Interbank loans	**21,513**	-	-	**21,513**
not overdue	21,513	-	-	**21,513**
Small and medium business lending	**23,913**	**335**	**876**	**25,124**
not overdue	23,799	335	279	**24,413**
overdue less than 30 days	114	-	-	**114**
overdue more than 90 days	-	-	597	**597**
Total loans to legal entities	**300,319**	**335**	**1,238**	**301,892**

11 Loans to Customers (Continued)

	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Residential mortgages	**3,429**	**-**	**356**	**3,785**
not overdue	3,429	-	160	**3,589**
Overdue more than 30 days and less than 90 days	-	-	162	**162**
overdue more than 90 days			34	**34**
Consumer lending	**3,625**	**6**	**295**	**3,926**
not overdue	3,625	6	145	**3,776**
Overdue more than 90 days	-	-	150	**150**
Total loans to individuals	**7,054**	**6**	**651**	**7,711**
Total loans to customers	**307,373**	**341**	**1,889**	**309,603**

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

	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Corporate lending	**232,785**	**-**	**1,763**	**234,548**
not overdue	232,785	-	-	**232,785**
overdue more than 90 days	-	-	1,763	**1,763**
Small and medium business lending	**18,264**	**492**	**1,093**	**19,849**
not overdue	18,264	492	320	**19,076**
overdue more than 30 days and less than 90 days	-	-	670	**670**
overdue more than 90 days	-	-	103	**103**
Total loans to legal entities	**251,049**	**492**	**2,856**	**254,397**

in thousands of GEL	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Residential mortgages	**2,577**	**-**	**369**	**2,946**
not overdue	2,565	-	255	**2,820**
overdue less than 30 days	12	-	85	**97**
overdue more than 90 days	-	-	29	**29**
Consumer lending	**3,390**	**6**	**437**	**3,833**
not overdue	3,390	-	167	**3,557**
overdue more than 30 days and less	-	-	-	**-**
than 90 days	-	6	11	**17**
overdue more than 90 days	-	-	259	**259**
Total loans to individuals	**5,967**	**6**	**806**	**6,779**
Total gross loans to customers	**257,016**	**498**	**3,662**	**261,176**

(In thousands of GEL)

11 Loans to Customers (Continued)

(c) Analysis of collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory, trade receivables, movable properties, sureties;
- For retail lending, mortgages over residential properties, movable properties and sureties.

The below table provides an analysis of the current fair values of collateral held and credit enhancements for credit- impaired (stage 3) assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD, even in if the future value of collateral is forecast using multiple economic scenarios. However, the Stage 3 ECL can be higher than net exposure show below when the future value of collateral, measured using multiple economic scenarios, is expected to decline.

The following table shows carrying value of loans on which no ECL was recognized because of existence of collateral as at 31 December 2023, 31 December 2022 and 31 December 2021:

Loans to legal entities	**31 December 2023**	**31 December 2022**	**31 December 2023**
Corporate lending	15,634	33,136	46,287
Small and medium business lending	2,184	2,289	8,121
Total loans to legal entities	**17,818**	**35,425**	54,408
Loans to individuals			
Residential mortgages	391	621	666
Consumer lending	1, 389	841	1,928
Total loans to individuals	**1,780**	1,462	2,594
Gross loans to customers	**19,598**	**36,887**	**57,002**

(In thousands of GEL)

11 Loans to Customers (Continued)

(d) Industry analysis of the loan portfolio

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

	31 December 2023		31 December 2022		31 December 2021	
Financial institutions	93,650	28%	89,306	29%	40,425	15%
Construction and land development	52,202	16%	28,667	9%	42,521	16%
Energy	50,854	15%	24,341	8%	47,300	19%
Other sectors	27,211	8%	34,933	11%	5,809	2%
Consumer goods	19,777	6%	31,625	10%	27,161	10%
Service	17,303	5%	11,507	4%	20,748	8%
Production and trade of clothes, shoes and textiles	15,418	5%	19,685	7%	13,168	5%
Healthcare	13,042	4%	13,041	4%	8,052	3%
Auto Dealers	12,544	4%	5,493	2%	3,509	1%
Real estate management	11,598	4%	15,361	5%	13,130	5%
Agriculture	5,288	2%	-	0%	-	0%
State Organizations	3,074	1%	14,331	5%	12,400	5%
Hotels, restaurants and tourism	1,772	1%	13,602	4%	19,005	7%
Telecommunication	-	0%	-	0%	1,169	1%
Loans to individuals	7,388	2%	7,711	2%	6,779	3%
Total gross loans to customers	**331,121**	**100%**	**309,603**	**100%**	**261,176**	**100%**
Less allowance for impairment	(2,304)		(2,449)		(1,150)	
Total loans to customers	**328,817**		**307,154**		**260,026**	

(e) Significant credit exposures

As at 31 December 2023 the Bank has loans issued to six borrowers or groups of connected borrowers (2022: four; 2021: seven) with carrying values that individually exceed 10% of equity. The gross value of these loans as at 31 December 2023 is GEL 113,954 thousand (2022: GEL 71,855 thousand; 2021: GEL 85,630 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 25 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be renewed at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the contractually agreed term. In this case the bank renews loans by creating new agreements and assesses the credit risks of companies separately.

(g) Modified and restructured loans

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes.

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

During 2021, the Bank has modified the terms and conditions of certain corporate and commercial loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Bank considered these modifications to be non-substantial.

(In thousands of GEL)

12 Investment Securities

Investment securities as at 31 December are as follows:

	31 December 2023	31 December 2022	31 December 2021
Debt securities at FVOCI			
Treasury bonds of Ministry of Finance Georgia	-	996	8,296
Deposit Certificate of NBG	-	-	-
Treasury bonds of Republic of Turkey	-	1,357	6,163
Total debt securities at FVOCI	**-**	**2,353**	**14,459**
Debt securities at AC			
Treasury bonds of Ministry of Finance Georgia	5,662	-	-
Deposit Certificate of NBG	5,876	-	-
Treasury bonds of Republic of Turkey	-	-	-
Total debt securities at AC	**11,538**	**-**	**-**
Total investment securities	**11,538**	**2,353**	**14,459**

All Investment securities are allocated to Stage 1. The ECL recognized for investment securities as at 31 December 2023, 31 December 2022 and 31 December 2021 were GEL 53 thousand, GEL 28 thousand, and GEL 71 thousand, respectively.

Credit rating of Investment securities as at 31 December 2023, 2022 and 2021 stands as follow:

	31 December 2023	31 December 2022	31 December 2021
BB	11,538	996	8,296
BB-	-	-	6,163
B	-	1,357	-
Total investment securities	**11,538**	**2,353**	**14,459**

Country rating for Republic of Georgia stands at BB with positive outlook as assigned by Fitch. Country rating for Republic of Turkey stands at B with positive outlook as assigned by Fitch.

(In thousands of GEL)

13 Property, Equipment, Intangible and Right-of-use Assets

Property, equipment, intangible and right-of-use assets as at December 31 2023, 2022 and 2021 comprise:

	Leasehold Improvements	Computers and office equipment	Furniture and fixtures	Motor vehicles	Total Property and Equipment	Intangible assets	Right-of-use assets / Building	Total
Cost								
Balance at 1 January 2021	2,063	1,454	399	577	4,493	1,032	2,737	**8,262**
Additions	194	171	99	-	**464**	-	6,896	**7,360**
Disposals	(1,675)	(26)	-	-	**(1,701)**	-	(2,107)	**(3,808)**
Balance at 31 December 2021	**582**	**1,599**	**498**	**577**	**3,256**	**1,032**	**7,526**	**11,814**
Additions	-	36	28	-	**64**	-	-	**64**
Disposals	-	(39)	-	-	**(39)**	(729)	(630)	**(1,398)**
Balance at 31 December 2022	**582**	**1,596**	**526**	**577**	**3,281**	**303**	**6,896**	**10,480**
Additions	40	1,994	100	95	**2,229**	-	-	**2,229**
Disposals	-	-	-	(114)	**(114)**	-	-	**(114)**
Balance at 31 December 2023	**622**	**3,590**	**626**	**558**	**5,396**	**303**	**6,896**	**12,595**
Depreciation and Amortization								
Balance at 1 January 2021	(1,898)	(886)	(398)	(247)	(3,429)	(684)	(1,795)	**(5,908)**
Depreciation and Amortization For the year	(46)	(170)	(16)	(92)	**(324)**	(83)	(874)	**(1,281)**
Disposals	1,549	26	-	-	**1,575**	-	1,873	**3,448**
Balance at 1 January 2022	**(395)**	**(1,030)**	**(414)**	**(339)**	**(2,178)**	**(767)**	**(796)**	**(3,741)**
Depreciation and Amortization For the year	(29)	(225)	(26)	(105)	**(385)**	(56)	(793)	**(1,234)**
Disposals	-	38	-	-	**38**	815	630	**1,483**
Balance at 31 December 2022	**(424)**	**(1,217)**	**(440)**	**(444)**	**(2,525)**	**(8)**	**(959)**	**(3,492)**
Depreciation and Amortization For the year	(20)	(173)	(43)	(75)	**(311)**	(129)	(667)	**(1,107)**
Disposals	-	24	-	114	**138**	-	-	**138**
Balance at 31 December 2023	**(444)**	**(1,366)**	**(483)**	**(405)**	**(2,698)**	**(137)**	**(1,626)**	**(4,461)**
Carrying amount								
As at 31 December 2021	187	569	84	238	1,078	265	6,730	**8,073**
As at 31 December 2022	158	379	86	133	756	295	5,937	**6,988**
As at 31 December 2023	**178**	**2,224**	**143**	**153**	**2,698**	**166**	**5,270**	**8,134**

The intangible assets comprises computer software and licenses

(In thousands of GEL)

14 Other Assets and Liabilities

Other assets and liabilities as at December 2023, 31 December 2022 and 31 December 2021 comprise the following:

	31 December 2023	31 December 2022	31 December 2021
Other assets			
Other financial assets			
Settlement operations	511	729	1,167
Receivables from problematic borrowers	429	366	394
Total other financial assets	**940**	**1,095**	**1,561**
Other non-financial assets			
Income tax asset, net	74	-	-
Repossessed assets	1,349	1,349	1,618
Prepaid expenses	557	-	167
Other	2	352	307
Total other non-financial assets	**1,982**	**1,701**	**2,092**
Total other assets	**2,922**	**2,796**	**3,653**
Other liabilities			
Other financial liabilities			
Settlement operations	200	181	353
Lease liabilities	4,711	5,275	6,751
Royalty payable	1,419	632	-
Other accrued liabilities	435	633	1,269
Total other financial liabilities	**6,765**	**6,721**	**8,373**
Other non-financial liabilities			
Provision for liabilities and charges	438	387	300
Accrued employee benefit cost	597	392	-
Income tax liability, net	-	524	401
Total other non-financial liabilities	**1,035**	**1,303**	**701**
Total other liabilities	**7,800**	**8,024**	**9,074**

(In thousands of GEL)

14 Other Assets and Liabilities (Continued)

Set out below are the carrying amounts of lease liabilities and the movements during the years:

	31 December 2023	31 December 2022	31 December 2021
As at 1 January	**5,275**	**6,751**	**1,084**
Addition	-	-	6,828
Accrual of interest	157	207	90
Foreign exchange adjustments	(37)	(882)	22
Payments	(684)	(801)	(955)
Termination of lease agreement	-	-	(318)
Lease liabilities at 31 December	**4,711**	**5,275**	**6,751**

15 Amounts Due to Credit Institutions

Amounts due to credit institutions as at December 2023, 31 December 2022 and 31 December 2021 comprise the following:

	31 December 2023	31 December 2022	31 December 2021
Vostro accounts	8,630	5,127	25,272
Term deposits	101,202	63,487	65,710
Short-term loan from NBG	-	15,014	-
Total amounts due to credit institutions	**109,832**	**83,628**	**90,982**

As at 31 December 2023 the Bank has placements from four banks (2022: three banks; 2021: four banks) with carrying values that individually exceed 10% of equity. The gross value of these balances as at 31 December 2023 is GEL 92,746 thousand (2022: GEL 44,129 thousand; 2021: GEL 81,610 thousand).

Loans from the National Bank of Georgia represent short-term GEL refinancing facilities used by the Bank to uphold its liquidity needs in GEL.

(In thousands of GEL)

16 Amounts Due to Customers

Amounts due to customers as at December 2023, 31 December 2022 and 31 December 2021 comprise the following:

	31 December 2023	31 December 2022	31 December 2021
Current accounts and demand deposits			
Retail	6,671	5,763	5,567
SME	14,187	11,729	6,905
Corporate	71,179	77,666	43,105
Total current accounts and demand deposits	**92,037**	**95,158**	**55,577**
Term deposits			
Retail	23,197	16,183	17,682
SME	4,049	1,367	1,498
Corporate	53,839	36,585	31,990
Total term deposits	**81,085**	**54,135**	**51,170**
Total amounts due to customers	**173,122**	**149,293**	**106,747**

As at 31 December 2023 the Bank has customer's deposits balances with the amount of GEL 13,474 thousand (2022: GEL 30,963 thousand; 2021: GEL 6,173 thousand) that serve as collateral for loans granted by the Bank. As at 31 December 2023 the Bank has placements from two customers (2022: two; 2021: two;) with carrying value that individually exceed 10% of equity.

17 Other Borrowed Funds

Other borrowed funds as at December 2023, 31 December 2022 and 31 December 2021 comprise the following:

	31 December 2023	31 December 2022	31 December 2021
Borrowings from financial institutions	39,233	57,050	73,185
Total other borrowed funds	**39,233**	**57,050**	**73,185**

As at December 31, 2023, the Bank maintains active borrowing agreements with three international financial institutions ('IFIs'). (In 2022: three IFIs and a National Bank of Georgia, 2021: three IFIs)

The total amount of other borrowing funds outstanding as at December 31, 2023, amounts to 39,233 thousand. This amount is broken down as follows: 27,672 thousand is designated to mature in 2026. 11,561 thousand is designated to mature in 2025. (In 2022: 36,125 thousand is designated to mature in 2026, 19,356 thousand is designated to mature in 2025, 1,569 thousand is designated to mature in 2023, In 2021: 35,504 thousand is designated to mature in 2026, 31,029 thousand is designated to mature in 2025, 6,652 thousand is designated to mature in 2023.

(In thousands of GEL)

17 Other Borrowed Funds (Continued)

Changes in liabilities arising from financing activities are as follows:

	Other borrowed funds
Carrying amounts as at 31 December 2020	**29,188**
Proceed from issue	51,831
Redemption	(4,771)
Foreign currency translation	(2,466)
Other movements	(597)
Carrying amounts as at 31 December 2021	**73,185**
Proceed from issue	8,653
Redemption	(13,287)
Foreign currency translation	(11,741)
Other movements	240
Carrying amount as at 31 December 2022	**57,050**
Proceed from issue	-
Redemption	(18,492)
Foreign currency translation	486
Other movements	189
Carrying amount as at 31 December 2023	**39,233**

(In thousands of GEL)

18 Net Interest Income

The interest income and expenses of the Bank are as follows:

	2023	2022	2021
Interest income			
Loans to customers	33,193	28,119	20,421
Cash and cash equivalent and due from banks	3,399	954	967
Investment securities	325	707	977
Total interest income	**36,917**	**29,780**	**22,365**
Interest expense			
Amounts due to banks	(3,472)	(3,032)	(1,952)
Other borrowed funds	(3,399)	(2,699)	(1,643)
Amounts due to customers	(4,567)	(1,454)	(1,057)
Other interest expense			
Lease liabilities	(157)	(212)	(90)
Total interest expenses	**(11,595)**	**(7,397)**	**(4,742)**
Total net interest income	**25,322**	**22,383**	**17,623**

19 Net Fee and Commission Income

The interest income and expenses of the Bank are as follows:

	2023	2022	2021
Fee and commission income			
Commission from guarantees	2,905	2,503	2,494
Settlement operations	421	418	415
Card operations	-	257	484
Other operations	-	60	21
Total fee and commission income	**3,326**	**3,238**	**3,414**
Fee and commission expense			
Card operations	-	(959)	(1,070)
Settlement operations	(563)	(436)	(453)
Other operations	-	-	(171)
Total fee and commission expense	**(563)**	**(1,395)**	**(1,694)**
Total net fee and commission income	**2,763**	**1,843**	**1,720**

The bank has decided to discontinue its unprofitable card operations to focus on its core banking activities, thereby enhancing financial efficiency and strategic alignment.

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(In thousands of GEL)

20 Expected Credit Loss

The table below shows the net ECL charges (reversal) on the financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended 31 December 2023, 31 December 2022 and 31 December 2021

	2023	2022	2021
Cash and cash equivalents	227	2	3
Loans to customers	(144)	1,318	98
Mandatory reserves at the National Bank of Georgia	91	-	
Investment securities	47	(28)	(71)
Financial guarantees	72	87	26
Total expected credit loss	**293**	**1,379**	**56**

21 Personnel Expenses

Personnel expenses of the Bank are as follows:

	2023	2022	2021
Salaries and bonuses	4,954	4,304	4,578
Pension contributions	65	58	53
Other compensation cost	450	459	236
Total personnel expenses	**5,469**	**4,821**	**4,867**

In 2023 the average number of employees by the Bank was 54 (2022: 63; 2021: 65).

(In thousands of GEL)

22 Other Expenses

Other expenses of the Bank are as follows:

	2023	2022	2021
Depreciation and amortization	1,107	1,234	1,281
Royalty	919	826	695
Communication and information services	517	781	662
Professional services	381	175	119
Low-value and short-term leases	186	95	17
Prepaid expenses write-off	180	-	-
Donation	147	-	-
Subscriptions	137	-	-
Insurance expense	106	58	110
Entertainment expenses	96	196	110
Penalty fee	95	-	22
Utilities	61	36	54
Repairs and maintenance	57	81	130
Travel expenses	35	114	60
Taxes other than on income	24	31	21
Office supplies	22	26	17
Advertising and marketing	9	10	3
Leasehold improvements write-off	-	-	127
Other	338	367	378
Total other expenses	**4,417**	**4,030**	**3,806**

Auditors' remuneration comprises of fees payable to the Bank's auditor for the audit of financial statements. Remuneration for the year ended 31 December 2023 comprised GEL 242 thousand (2022: GEL 79 thousand, 2021: GEL 61 thousand) (net of VAT).

23 Taxation

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

The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, deferred tax assets and liabilities balances have been re-measured, in line with the updated legislation. The change resulted in a one-off deferred tax charge as previously the Bank recognised deferred taxes only to the extent they were expected to realise before 1 January 2023.

The corporate income tax expense comprises:

(In thousands of GEL)

23 Taxation (Continued)

	2023	2022	2021
Current year tax expense	**(4,344)**	**(3,106)**	**(1,824)**
Deferred tax benefit/(expense)	**123**		
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	-	320	198
Effects from changes in tax legislation	-	(478)	-
Deferred tax benefit/(expense)	**123**	**(158)**	**198**
Total income tax expense	**(4,221)**	**(3,264)**	**(1,626)**

In 2023, the applicable tax rate for current and deferred tax is 20% (2022: 15%; 2021: 15%)

Reconciliation of effective tax rate for the year ended 31 December:

	2023	2022	2021
Profit before tax	**20,845**	**15,777**	**12,207**
Income tax at the applicable Tax rate	**(4,169)**	**(2,367)**	**(1,831)**
Non-taxable differences	(52)	(419)	205
Effects from changes in tax legislation	-	(478)	-
Income tax expense	**(4,221)**	**(3,264)**	**(1,626)**

Deferred tax assets and liabilities

Movements in temporary differences during the years ended 31 December 2023, 2022 and 2021 are presented as follows.

	Balance 01-Jan 2023	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31-Dec 2023
Property, equipment, Intangible and ROU assets	(1,342)	(184)	-	(1,526)
Loans to customers	(351)	351	-	-
Investment securities	(101)	101	-	-
Amounts owed to credit institution	-	(58)	-	(58)
Other liabilities	1,030	(87)	-	943
Net tax (liabilities)/assets	**(764)**	**123**	**-**	**(641)**

(In thousands of GEL)

23 Taxation (Continued)

	Balance 01-Jan 2022	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31-Dec 2022
Property, equipment, Intangible and ROU assets	(352)	(990)	-	**(1,342)**
Loans to customers	(548)	197	-	**(351)**
Investment securities	(42)	23	(82)	**(101)**
Other liabilities	(60)	1,090	-	**1,030**
Net tax (liabilities)/assets	**(1,002)**	**320**	**(82)**	**(764)**

	Balance 01-Jan 2021	Recognized in profit or loss	Recognized in other comprehensive income	Balance 31-Dec 2021
Property, equipment, Intangible and ROU assets	(299)	(53)	-	**(352)**
Loans to customers	(807)	259	-	**(548)**
Investment securities	(87)	(19)	64	**(42)**
Other liabilities	(71)	11	-	**(60)**
Net tax (liabilities)/assets	**(1,264)**	**198**	**64**	**(1,002)**

Management identified and corrected two errors in the note disclosing movement for temporary differences during the year. Deferred tax liability on Property, equipment, Intangible and ROU assets temporary differences were not recognized accurately and deferred tax asset from lease liability was not recognized at all. These corrections have been incorporated during FY 2023, and only the respective line items in the movement table have been changed.

	Recognized in profit or loss (As originally presented)	Restatement	Recognized in profit or loss (As restated)
Property, equipment, intangible assets and ROU assets	67	(1,057)	(990)
Other liabilities	33	1,057	1,090

	Balance 31 December 2022 (As originally presented)	Restatement	Balance 31 December 2022 (As restated)
Property, equipment, intangible assets and ROU assets	(285)	(1,057)	(1,342)
Other liabilities	(27)	1,057	1,030

24 Capital Management (Unaudited)

The Bank’s objectives when managing capital are (i) to comply with the capital requirements set by the National bank of Georgia and (ii) to safeguard the Bank’s ability to continue as a going concern. Compliance with capital adequacy ratios set by the central bank is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank’s Chief Executive Officer and Chief Financial Officer. Other objectives of capital management are evaluated in line with the business developments and strategy upon request of stakeholders.

Basel III

In December 2017, the NBG has introduced approved amendments to the “Regulation on Capital Adequacy Requirements for Commercial Banks”. Under the updated capital framework, capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers under Pillar 1 and Pillar 2.

Pillar 1

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A countercyclical capital buffer is currently set at 0%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period.

Pillar 2

- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- A net stress buffer will be introduced based on stress testing results provided by the Bank;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, based on the Bank’s specific risks.

In addition, specific PTI (payment to income) and LTV (loan to value) thresholds were introduced based on the new methodology. Exposures that do not meet pre-defined PTI and LTV limits are subject to weighting at higher rates.

Under the current capital requirements set by the National Bank of Georgia, banks have to maintain a ratio of regulatory capital to risk weighted assets above a prescribed minimum level (Core equity Tier 1 ratio > 13%; Tier 1 ratio > 17% and Total capital ratio > 21%). Based on information provided internally to key management personnel, the amount of capital that the Bank managed was GEL 134,058 thousand as at 31 December 2023 (2022: GEL 117,347 thousand; 2021: GEL 104,431 thousand), regulatory Tier 1 capital amounts to GEL 133,881 thousand (2022: GEL 111,096 thousand; 2021: GEL 94,392 thousand), total regulatory capital amounts to GEL 133,881 thousand (2022: GEL 116,173 thousand; 2021: GEL 99,324 thousand) and the Bank have complied with all externally imposed capital requirements throughout 2023,2022 and 2021.

(In thousands of GEL)

24 Capital Management (Unaudited) (Continued)

The Bank's capital adequacy ratios for the year ended 31 December calculated in accordance with NBG Basel II/III requirements were as follows:

	2023	**2022**	**2021**
Total common equity and Tier 1 Capital	133,881	111,096	94,392
Total regulatory capital	133,881	116,173	99,324
Total risk-weighted exposures	508,950	447,552	429,798
Common equity Tier 1 ratio	26%	25%	22%
Tier 1 capital ratio	26%	25%	22%
Total regulatory capital ratio	26%	26%	23%
Common equity Tier 1 ratio minimum requirements	13%	9%	7%
Tier 1 capital ratio minimum requirement	17%	12%	9%
Total regulatory capital minimum requirement	21%	17%	16%

The risk-weighted exposures are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

25 Risk management, Corporate Governance and Internal Control

(a) Corporate governance framework

The Bank is established as a bank in accordance with Georgian law. The supreme governing body of the Bank is the Supervisory Council. The Supervisory Council makes strategic decisions on the Bank's operations.

The Supervisory Council elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

(b) Internal control policies and procedures

Management has responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- Proper and comprehensive risk assessment and management;
- Proper business and accounting and financial reporting functions, including proper authorization,

  processing and recording of transactions;
- Completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- Reliability of IT-systems, data and systems integrity and protection;
- Prevention of fraudulent or illegal activities, including misappropriation of assets;
- Compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

Management believes that the Bank complies with the NBG requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations

25 Risk Management, Corporate Governance and Internal Control (Continued)

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The Bank's strong risk governance reflects the importance placed by Bank's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting and supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. The bank is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating and business risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Management has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters. CRO is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to Risk Committee of Supervisory Council.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and Risk Management Division and ALCO. Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Bank's established threshold.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk arises from open positions in interest rate instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions. These are monitored on a regular basis and reviewed and approved by management.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instruments. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2023 Assets						
Cash and cash equivalents	77,287	-	-	-	-	**77,287**
Amounts due from banks	-	-	-	-	-	**-**
Mandatory reserves at the NBG	35,988	-	-	-	-	**35,988**
Investment securities	5,876	-	5,662	-	-	**11,538**
Loans to customers	83,601	92,556	34,336	103,732	14,592	**328,817**
Other financial assets	940	-	-	-		**940**
Total financial assets	**203,692**	**92,556**	**39,998**	**103,732**	**14,592**	**454,570**
Liabilities						
Accounts and deposits form banks	71,542	38,290	-	-	-	**109,832**
Current accounts and deposits from customers	126,009	17,128	20,658	9,048	279	**173,122**
Other borrowed funds	2,044	6,445	8,466	22,278	-	**39,233**
Other financial liabilities	2,189	136	276	3,699	465	**6,765**
Total financial liabilities	**201,784**	**61,999**	**29,400**	**35,025**	**744**	**328,952**
Net position	**1,908**	**30,557**	**10,598**	**68,707**	**13,848**	**125,618**

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2022 Assets						
Cash and cash equivalents	57,785	-	-	-	-	**57,785**
Amounts due from banks	-	-	-	-	-	**-**
Mandatory reserves at the NBG	39,030	-	-	-	-	**39,030**
Investment securities	996	-	-	1,357	-	**2,353**
Loans to customers	90,393	50,074	52,602	82,042	32,043	**307,154**
Other financial assets	1,095	-	-	-	-	**1,095**
Total financial assets	**189,299**	**50,074**	**52,602**	**83,399**	**32,043**	**407,417**
Liabilities						
Accounts and deposits form banks	54,513	29,115	-	-	-	**83,628**
Current accounts and deposits from customers	130,054	12,282	6,317	640	-	**149,293**
Other borrowed funds	2,185	6,620	6,413	41,832	-	**57,050**
Other financial liabilities	1,597	152	309	4,142	521	**6,721**
Total financial liabilities	**188,349**	**48,169**	**13,039**	**46,614**	**521**	**296,692**
Net position	**950**	**1,905**	**39,563**	**36,785**	**31,522**	**110,725**

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2021 Assets						
Cash and cash equivalents	52,038	-	-	-	-	**52,038**
Amounts due from banks	4,616	2,576	1,553	-	-	**8,745**
Mandatory reserves at the NBG	38,427	-	-	-	-	**38,427**
Investment securities	1,497	3,833	2,966	6,163	-	**14,459**
Loans to customers	68,280	25,829	30,254	103,332	32,331	**260,026**
Other financial assets	1,561	-	-	-	-	**1,561**
Total financial assets	**166,419**	**32,238**	**34,773**	**109,495**	**32,331**	**375,256**
Liabilities						
Accounts and deposits form banks	34,644	35,292	21,046	-	-	**90,982**
Current accounts and deposits from customers	87,659	8,273	5,482	5,333	-	**106,747**
Other borrowed funds	62	6,912	9,215	53,492	3,504	**73,185**
Other financial liabilities	1,815	195	396	5,301	666	**8,373**
Total financial liabilities	**124,180**	**50,672**	**36,139**	**64,126**	**4,170**	**279,287**
Net position	**42,239**	**(18,434)**	**(1,366)**	**45,369**	**28,161**	**95,969**

Average nominal interest rates

The table below displays average nominal interest rates for interest-bearing assets and liabilities as at 31 December 2023, 2022 and 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023 Average nominal interest rate %			**2022 Average nominal interest rate %**			**2021 Average nominal interest rate %**		
	GEL	**USD**	**EUR**	**GEL**	**USD**	**EUR**	**GEL**	**USD**	**EUR**
Interest bearing assets									
Cash and cash equivalents	8.99%	-	3.58%	9.70%	2.40%	0.70%	8.50%	-	0.10%
Amounts due from banks	-	-	-	-	.-	-	-	4.40%	-
Investment securities	9.18%	-	-	9.20%	6.80%	-	8.90%	6.60%	-
Loans to customers	12.93%	9.92%	8.07%	14.00%	8.30%	6.50%	13.12%	6.80%	5.50%
Interest bearing liabilities									
Deposits and balances from banks	-	4.84%	4.46%	11.00%	0.92%	0.60%	-	0.80%	1.58%
Deposits from customers	7.97%	3.25%	2.08%	10.90%	2.10%	1.40%	6%	1.54%	0.80%
Other borrowed funds	-	6.39%	7.06%	-	7%	5.30%	-	3.70%	3.10%
Lease liabilities	-	3.5%	-	-	3.5%	-	-	3.5%	-

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities.

An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk, assuming that all other variables, such as foreign currency exchange rates remain constant) based on a simplified scenario of a 100 basis point (bps) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2023, 2022 and 2021, is as follows:

	2023	2022	2021
100 bps parallel fall	(240)	(232)	(197)
100 bps parallel rise	240	232	197

Sensitivity of equity (net of taxes) to a 100 bps shift of yield curve was as follows:

	2023	2022	2021
100 bps parallel fall	(186)	(188)	(167)
100 bps parallel rise	186	188	167

(ii) Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank constantly monitors that the NBG limits of currency positions against regulatory capital are maintained. The Bank has assets and liabilities denominated in several foreign currencies.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023:

	EUR	USD	TRY	GBP	Total
Assets					
Cash and cash equivalents	6,634	36,599	876	2,171	**46,280**
Mandatory reserve at the NBG	8,904	27,084	-	-	**35,988**
Investment securities	-	-	-	-	**-**
Loans to customers	104,212	86,614	-	-	**190,826**
Other financial assets	-	153	-	-	**153**
Total assets	**119,750**	**150,450**	**876**	**2,171**	**273,247**
Liabilities					
Deposits and balances form banks	81,117	26,534	-	2,182	**109,833**
Current accounts and deposits from customers	11,116	108,800	931	-	**120,847**
Other borrowed funds	27,825	11,408	-	-	**39,233**
Other financial liabilities	39	5,962	11	-	**6,012**
Total liabilities	**120,097**	**152,704**	**942**	**2,182**	**275,925**
Net position	**(347)**	**(2,254)**	**(66)**	**(11)**	**(2,678)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022:

	EUR	USD	TRY	GBP	Total
Assets					
Cash and cash equivalents	11,702	36,627	17	1,252	**49,598**
Mandatory reserve at the NBG	12,555	26,475	-	-	**39,030**
Investment securities	-	1,357	-	-	**1,357**
Loans to customers	69,130	69,899	-	-	**139,029**
Other financial assets	138	113	-	-	**251**
Total assets	**93,525**	**134,471**	**17**	**1,252**	**229,265**
Liabilities					
Deposits and balances form banks	41,021	10,301	-	1,243	**52,565**
Current accounts and deposits from customers	16,589	98,280	10	2	**114,881**
Other borrowed funds	36,126	21,470	-	-	**57,596**
Other financial liabilities	8	1,441	-	-	**1,449**
Total liabilities	**93,744**	**131,492**	**10**	**1,245**	**226,491**
Net position	**(219)**	**2,979**	**7**	**7**	**2,774**

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2021:

	EUR	*USD*	*TRY*	*GBP*	*Total*
Assets					
Cash and cash equivalents	27,231	4,736	58	900	**32,925**
Amounts due from banks	-	8,745	-	-	**8,745**
Mandatory reserve at the NBG	22,938	15,489	-	-	**38,427**
Investment securities	-	6,163	-	-	**6,163**
Loans to customers	77,064	91,821	-	-	**168,885**
Other financial assets	169	157	1	-	**327**
Total assets	**127,402**	**127,111**	**59**	**900**	**255,472**
Liabilities					
Deposits and balances form banks	57,674	32,410	-	898	**90,982**
Current accounts and deposits from customers	34,411	48,494	79	2	**82,986**
Other borrowed funds	35,504	38,278	-	-	**73,782**
Other financial liabilities	394	1,282	75	-	**1,751**
Total liabilities	**127,983**	**120,464**	**154**	**900**	**249,501**
Net position	**(581)**	**6,647**	**(95)**	**-**	**5,971**

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2023, 2022 and 2021, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2023	**2022**	**2021**
20% appreciation of USD against GEL	(451)	506	1,130
20% appreciation of EUR against GEL	(69)	(37)	(99)
20% appreciation of TRY against GEL	(13)	1	(16)
20% appreciation of GBP against GEL	(2)	1	-

A strengthening of the GEL against the above currencies at 31 December 2023, 2022 and 2021 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

(e) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures in place to manage credit exposures (both for recognized

financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor credit risk. The credit policy is reviewed and approved by management.

25 Risk Management, Corporate Governance and Internal Control (Continued)

The credit policy establishes:

- Procedures for reviewing and approving loan credit applications;
- Methodology for the credit assessment of borrowers (legal entities and individuals);
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

For all loans to legal entities the Bank performs due diligence that focuses on the customer’s business and financial performance.

Exposure to credit risk is also managed, in part, by obtaining collateral and personal guarantees. Valuation of collateral is performed by independent experts for loans mentioned above. The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit-related commitments risks

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of 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 credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD — The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD — The Exposure at Default is an estimate of the exposure at a future default date, taking into account

Expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD — The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, excluding the realisation of any collateral. It is usually expressed as a percentage of the EAD.

LGL — The Loss Given Liquidation represents the percentage of the exposure that cannot be recovered from collateral liquidation if the exposure is defaulted.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

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

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

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12m ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination or it is in overdue for more than 30 days, the Bank classifies the loan as Stage 2 loan and records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Retail clients financial instruments are assigned Stage 2 category when an increase of Payment to Income ratio is greater than or equal to 10 percentage points than a standard defined by NBG requirements.

GEL	INCOME	Latest available PTI *	PTI increase =potential SICR**
	< 1500	>25%	>=10 p.p.
	>=1000	>50%	>=10 p.p.

USD	INCOME	Latest available PTI	PTI increase =potential SICR
	< 1500	>20%	>=10 p.p.
	>=1500	>30%	>=10 p.p.

Corporate clients financial instruments are assigned Stage 2 category when a decrease of Debt Service Coverage ratio is greater than or equal to 10 percentage points than a standard defined by NBG requirements.

DSCR*** Latest Updated	DSCR Delta vs Origination
< 1.2	<=-10%

* Payment-to-income ratio

The payment-to-income ratio assesses the proportion of an individual's income that is utilized to cover debt repayments.

It is computed by dividing the total debt payments made by borrowers by their total income. This ratio is a critical metric used by the bank to evaluate the creditworthiness and repayment capacity of borrowers.

** Significant increase in credit risk

*** Debt-service coverage ratio

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

Definition of default and cure

The Bank's definition of default is based on quantitative and qualitative criteria. An instrument is classified as credit impaired if:

- Payments of interest, principal or fees by obligor are overdue for more than 90 days; or
- If a problematic restructuring of a loan took place, which otherwise would become defaulted; or
- There is an event which have a detrimental impact on the estimated future cash flows of the borrower endangering its ability to repay liabilities in full, when bankruptcy or insolvency proceedings of enforced liquidation have commenced or there is other evidence that payment obligations will not be fully met.

In terms of measurable indicators, following criteria are monitored as following:

For legal entities	Indicator
For Sectors: Hotels, Energy, Real Estate Management	DSCR < 1.0 (recalculated on 15 years)
For Other Sectors	DSCR < 1.0 (recalculated on 10 years)

For retail clients	Indicator
Monthly net income (in GEL or FCY in GEL equivalent)	
< 1,500	PTI > 55%
>= 1,500	PTI > 70%

In case, above measurable indicators are met, the borrower is considered as defaulted and transferred into Stage 3.

Once financial instrument is classified to Stage 2 it remains so until following two conditions are met:

1. The financial instrument should fulfil requirements for Stage 1 credit risk category;
2. Overdue days and probation period conditions should be met.

A financial instrument is classified as Stage 1 risk category, if the following conditions are met:

- The payments are done on time or overdue days do not exceed 30 days;
- The borrower's liquidity, capital and loan repayment capacity is stable;
- The borrower is financially sufficiently strong to absorb medium level stress outcomes, and has enough liquidity to service all liabilities.

Improvement Requirements for (both restructured and non-restructured) financial instruments, when financial analysis is not conducted:

Cure period for non-restructured Stage 2 financial instrument is 6 months, after which the instrument is classified in Stage 1 if during the probation period the financial instrument was in ≤ 30 days overdue.

Summary: Stage 2 → Stage 1 when ≤ 30 dpd during 6 months.

For restructured performing Stage 2 financial instrument the probation period is 1 year (if during the probation period the financial instrument was in ≤ 30 days overdue after which the instrument is reclassified to Stage 1).

25 Risk Management, Corporate Governance and Internal Control (Continued)

Summary: PF (Stage 2) → Stage 1 when ≤ 30 dpd during 1 year.

Cure period for non-restructured Stage 3 financial instrument is 6 months, after which the instrument is classified in Stage 2 if during the probation period the financial instrument was in ≤ 90 days overdue.

Cure period for non-restructured Stage 2 financial instrument is 6 months, after which the instrument is classified in Stage 1 if during the probation period the financial instrument was in ≤ 30 days overdue.

Summary: Stage 3 → Stage 2 when ≤ 90 dpd during 6 months. Stage 2 → Stage 1 when ≤ 30 dpd during 6 months.

For restructured Stage 3 (Non-performing Restructured) financial instrument the cure period is 6 months, after which the instrument is classified as Stage 2 (Performing Restructured) if the instrument was 31-90 days overdue during the cure period. As soon as the financial instrument is classified as Performing Restructured, starts one year probation period, after which the instrument is classified as Stage 1 if the instrument was not more than 30 days overdue during the probation period. If the instrument falls in 31-90 days overdue it remains in Stage 2. One year probation period starts from the last month when the instrument last recovered from 31-90 days overdue.

Summary: NPF (Stage 3) → PF (Stage 2) when 31-90 dpd during 6 months. PF (Stage 2) → PE (Stage 1) when <=30 dpd during 1 year.

Improvement Requirements for non-restructured financial instruments, when financial analysis is conducted:

Apart from above mentioned probation periods of restructuring statuses, the category is possible to improve for financial instruments based on conducted financial analysis, specifically:

- Reclassify a financial instrument from Stage 2 to Stage 1 category:
  - When as a result of performed financial analysis of the borrower, requirements for Stage 1 (performing) conditions are fully met
  - And at the same time the last 3 consistent payments have been performed without overdue.

- Reclassify a financial instrument from Stage 3 to Stage 2 category:
  - When as a result of performed financial analysis of the borrower, requirements for Stage 2 (performing) conditions are fully met
  - And at the same time the last 3 consistent payments have been performed without overdue.

- Reclassify a financial instrument from Stage 3 to Stage 1 category:
  - When as a result of performed financial analysis of the borrower, requirements for Stage 1 (performing) conditions are fully met
  - And at the same time the last 6 consistent payments have been performed without overdue.

A financial instrument will no longer be considered restructured only if more than 1 year has passed since the restructuring and for the last 1 year of the financial instrument has been assigned Stage 1 credit risk category..

PD estimation process

For retail and corporate portfolios PD is estimated through macro model, which describes relationship between historical

PDs for retail and corporate portfolios and macroeconomic variables such as real GDP growth and USD/GEL exchange rate. Based on estimation results and predicted macro variables provided by the NBG conditional retail and corporate PDs are forecasted. The model will be re-estimated annually and other macroeconomic variables will be incorporated if they improve explanatory power of the model. With the forecasted conditional PD's migration matrices are constructed, from which unconditional marginal PD's are calculated that are further adjusted by age of the instrument in the portfolio.

25 Risk Management, Corporate Governance and Internal Control (Continued)

PD for stage 3 financial instruments is considered as 100%.

For the financial instruments, on which the Bank has surety from parent companies of the borrower, the Bank uses PDs of their parent companies.

Exposure at default

The exposure at default (EAD) is calculated differently for Stage 1, Stage 2 and Stage 3 financial instruments. EAD are reduced by cash cover amounts. Off-balance commitments are considered through Cash Conversion Factor (CCF), specifically by 100% for corporate commitments and 50% for retail commitments.

For Stage 1, the EAD is calculated as an outstanding amount of loans and off balance commitments taking into account CCF and cash cover amounts as of reporting date.

For Stage 2 and Stage 3, the EAD is calculated as the outstanding amount of the instrument by the reporting date taking into account CCF and cash cover amounts.

Loss given default

For corporate and retail lending assets, LGD values are assessed annually. LGD is defined as the likely loss arising in case of a counterparty defaults for unsecured exposures. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. LGD rate are calculated for corporate and retail portfolios. LGD is statistically calculated based on historical loan recovery data and takes into account historical losses incurred on unsecured exposures. While calculation LGD outlier recoveries are excluded from the calculation. LGD is expressed as a percentage of the EAD.

Loss Given Liquidation of collateralized exposures (LGL):

LGL represents the percentage of the exposure that cannot be recovered from collateral liquidation if the exposure is defaulted. Loss Given Liquidation calculation takes into account LTV, adjusted by time to sale of movable and immovable collateral, real estate price index, EIR, and expected sales ratio of collaterals. For uncollateralized exposures LGL is taken at 100%.

Average LGL ratios are calculated for five LTV bands separately for retail and non-retail borrowers, which then are assigned to each exposure depending on the LTV band the exposure falls.

Sales costs calculation:

The Bank considers following sales costs associated with sale of received collateral.

In case the Bank’s claim is over GEL 15,000, the Bank goes to Arbitration. For claims below GEL 15,000 the Bank goes to a Court.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

Costs associated with Arbitration cases		
VAT	18%	When demand x 1.18 is less than collateral value, in such case VAT is calculated from demand and vice versa.
Arbitration fee	3%	Including VAT, NOTE: min prices is GEL 236 (Without oral Hearing) /GEL 590 (Based on oral hearing)/GEL 708 Oral hearing when composed of 3 arbitrators), max prices is GEL 15,000. The Bank has the following approach in contracts: when the claim is ≤ GEL 50,000 the Bank goes without oral Hearing (i.e. minimal price GEL 236) / When the claim is > GEL 50,000 the Bank goes with an oral hearing consisting of 3 arbitrators (i.e. minimal price GEL 708).
Court of appeal fee	GEL150	
Fee paid to Enforcement	2%	From the total request (principal + arbitration fee + court of appeal fee)
Commission taken by the enforcement beraue	5%	From the selling price in auction

Costs associated with Court cases		
VAT	18%	When demand x 1.18 is less than collateral value, in such case VAT is calculated from demand and vice versa.
Court fee	3%	Min price: GEL 100, max price: GEL 5,000
Fee paid to Enforcement	2%	From the total request (principal)
Commission taken by the enforcement beraue	5%	From the selling price in auction

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. When assessing significance of increase in credit risk and whether the instrument is subject to 12m ECL or LTECL, the Bank compares the risk of default at the reporting date and risk of default occurring at the date of initial recognition. To identify significant increase in credit risk since initial recognition of the financial asset at individual financial instrument level, the Bank is undertaking the holistic analysis of various factors, including those which are specific to a particular financial instrument or to a borrower.

The analysis includes considering of quantitative and qualitative information based on the Bank's historical experience, credit risk assessment and forward looking information.

For individually significant exposures the Bank evaluates individually whether an objective evidence of significant increase in credit risk or impairment exists to recognise lifetime expected credit losses. Individually significant exposures are considered exposures to the group exceeding 1% of the tier I capital of the bank. The Bank collectively assesses loans that are not individually significant and loans that are individually significant but for which there is no objective evidence of significant increase in credit risk.

Individually significant loans

SICR identification process for individually significant exposures includes performing a qualitative test. To assess SICR for individually significant loans the Bank has established general trigger events for all types of exposures, specific trigger events for non-retail borrowers and specific trigger events for retail borrowers. General trigger events include but are not limited to:

- Deterioration of macroeconomic, regulatory, political or technological outlook relevant to particular or group of borrowers;
- Adverse changes in the sector or industry conditions in which borrower operates.

25 Risk Management, Corporate Governance and Internal Control (Continued)

Specific trigger events for non-retail borrowers include:

- Deterioration of borrowers' financial performance that is quantified by adverse changes in financial coefficients;
- Being overdue more than 30 days but less than 90 days;
- Those restructurings which if had not been done would not lead to the instrument falling in more than 90 days overdue;
- Breaching the contract;
- Sale of crucial part of the business or property which is necessary for the borrower's profit making operations;
- Fraud in borrower's business, etc.

If significant increase in credit risk is identified, for lifetime ECL calculation it is assessed whether future cash inflows of the borrower are enough to cover the cash outflows for different scenarios. Analysis of cash flow of the borrower includes analysis of existing and forecasted trends of industry within which the borrower operates. The amount of impairment is measured as the difference between the carrying amount of the credit facility and the present value of estimated future cash flows, discounted at the credit facility's original effective interest rate. The estimated future cash flows will include any expected cash flows from the borrowers operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable.

Collectively assessed loans

Non-retail exposures that are not individually significant are assessed for SICR based on overdue days (between 30 and 90 days) or whether they are restructured and deterioration of various financial coefficients (Payment To Income (PTI) and Debt Service Coverage Ratio (DSCR)).

Specific trigger events for retail borrowers include but are not limited to loan being overdue more than 30 days but less than 90 days, restructuring of an exposure which if would not be done would lead to the instrument falling in more than 90 days overdue, deterioration of PTI ratio, etc.

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools on the basis of asset types – whether the instrument is retail or non-retail, and based on Loan to Value (LTV) ratio. On the basis of LTV ratios financial instruments are grouped into five LTV bands.

Writing-off of facilities:

The Bank has elaborated the methodology for writing-off of exposures towards the borrowers, specifically as following:

Unsecured financial instrument is subject to be written off if overdue days exceed 360 days;

Secured financial instrument is subject to be written off if overdue days exceed 720 days.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, corporates and Georgian and Turkish governments.

PDs are assigned to issuers or banks according to external rating default rates. The minimum PD is set to 0.05% according to Basel. For Banks LGD is taken at 47.81%, according to the foundation approach of the Basel document. For corporate securities LGD is taken at 47.81%. EAD represents sum of some of outstanding principal and accrued interest in the case of securities, sovereign bonds and interbank exposures.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on the following forward looking information as economic inputs, such as:

- GDP growth;
- Foreign exchange rates.

The Bank calculates ECL on an individual basis for all financial assets. ECL is calculated for three (Baseline 50%, Upside 25%, and Adverse 25%) scenarios and weighted ECL is computed as a weighted sum of all three scenario ECLs.

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the economy. To derive the baseline macro-economic scenario, the Bank takes into account forecasts from the National Bank of Georgia.

The tables below show the values of the forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations:

The figures for “Subsequent years” represent a long-term average and so are the same for each scenario as at 31 December 2023:

Key drivers	**ECL scenario**	**Assigned probabilities, %**	**2023**	**2024**	**2025**	**2026**	**Subsequent years**
GDP growth, %							
	Upside	25%	6.0%	6.5%	5.5%	5.0%	5.0%
	Base case	50%	6.0%	5.0%	4.5%	5.0%	5.0%
	Downside	25%	6.0%	3.0%	4.0%	5.0%	5.0%
GEL/USD exchange rate, % change							
	Upside	25%	0.0%	3.0%	2.0%	0.0%	0.0%
	Base case	50%	0.0%	0.0%	0.0%	0.0%	0.0%
	Downside	25%	0.0%	-15.0%	0.0%	5.0%	0.0%

The figures for “Subsequent years” represent a long-term average and so are the same for each scenario as at 31 December 2022:

Key drivers	**ECL scenario**	**Assigned probabilities, %**	**2022**	**2023**	**2024**	**2025**	**Subsequent years**
GDP growth, %							
	Upside	25%	10.0%	6.0%	5.0%	5.0%	5.0%
	Base case	50%	10.0%	4.0%	5.5%	5.0%	5.0%
	Downside	25%	10.0%	2.0%	4.0%	5.0%	5.0%
GEL/USD exchange rate, % change							
	Upside	25%	0.0%	2.0%	0.0%	0.0%	0.0%
	Base case	50%	0.0%	0.0%	0.0%	0.0%	0.0%
	Downside	25%	0.0%	-15.0%	5.0%	5.0%	5.0%

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2021:

Key drivers	ECL scenario	Assigned probabilities, %	2022	2023	2024	Subsequent years
GDP growth, %						
	Upside	25%	6.0%	5.0%	5.0%	5.0%
	Base case	50%	5.0%	4.5%	4.5%	4.5%
	Downside	25%	1.0%	4.0%	4.0%	4.0%
GEL/USD exchange rate, % change						
	Upside	25%	-5.0%	-5.0%	0.0%	0.0%
	Base case	50%	0.0%	0.0%	0.0%	0.0%
	Downside	25%	0.0%	0.0%	0.0%	0.0%

(f) Liquidity risk

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by management.

The Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans;
- Monitoring liquidity ratios against regulatory requirements.

The liquidity position is monitored by the Finance Management Division and the Risk Management Division. Under the normal market conditions, information on the liquidity position is presented to the management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Division. In addition, the Bank monitors on a regular basis the liquidity ratio calculated in accordance with the NBG requirements.

The following tables show the undiscounted cash flows on liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The maturity analysis for financial liabilities as at 31 December 2023 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances form banks	(48,825)	(22,980)	(38,970)	-	-	-	**(110,775)**	**(109,832)**
Current accounts and deposits from customers	(103,150)	(24,501)	(17,223)	(20,615)	(9,450)	(244)	**(175,183)**	**(173,122)**
Other borrowed funds	-	(2,469)	(5,330)	(2,398)	(27,309)	-	**(37,506)**	**(39,233)**
Other financial liabilities	(1,996)	(117)	(175)	(71)	(4,238)	(471)	**(7,068)**	**(6,765)**
Total financial liabilities	**(153,971)**	**(50,067)**	**(61,698)**	**(23,084)**	**(40,997)**	**(715)**	**(330,532)**	**(328,952)**
Credit related commitments	**(121,194)**	**-**	**-**	**-**	**-**	**-**	**-**	**(121,194)**

The maturity analysis for financial liabilities as at 31 December 2022 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances form banks	(39,837)	(14,928)	(29,439)	-	-	-	**(84,204)**	**(83,628)**
Current accounts and deposits from customers	(123,543)	(6,569)	(12,557)	(6,660)	(661)	-	**(149,990)**	**(149,293)**
Other borrowed funds	-	-	(2,194)	-	(65,790)	-	**(67,984)**	**(57,050)**
Other financial liabilities	(3,554)	(88)	(132)	(268)	(2,334)	(2,427)	**(8,803)**	**(6,721)**
Total financial liabilities	**(166,934)**	**(21,585)**	**(44,322)**	**(6,928)**	**(68,785)**	**(2,427)**	**(310,981)**	**(296,692)**
Credit related commitments	**(95,990)**	**-**	**-**	**-**	**-**	**-**	**-**	**(95,990)**

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The maturity analysis for financial liabilities as at 31 December 2021 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances form banks	(25,272)	(9,426)	(35,552)	(21,280)	-	-	**(91,530)**	**(90,982)**
Current accounts and deposits from customers	(58,897)	(28,941)	(8,336)	(5,592)	(5,508)	-	**(107,274)**	**(106,747)**
Other borrowed funds	-	-	-	-	(83,594)	-	**(83,594)**	**(73,185)**
Other financial liabilities	(4,258)	(147)	(232)	(232)	(3,285)	(2,734)	**(10,888)**	**(8,373)**
Total financial liabilities	**(88,427)**	**(38,514)**	**(44,120)**	**(27,104)**	**(92,387)**	**(2,734)**	**(293,286)**	**(279,287)**
Credit related commitments	**(110,543)**	**-**	**-**	**-**	**-**	**-**	**-**	**(110,543)**

Under Georgian law, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. Accordingly, these deposits are shown in the table below in accordance with their stated maturity. The classification of these deposits in accordance with stated maturity dates is presented below:

	2023	2022	2021
Demand and less than 1 month	6,670	7,723	7,873
From 1 to 3 month	-	6,591	4,037
From 3 to 12 month	8,487	7,543	6,006
From 1 to 5 years	14,323	88	5,333
More than 5 years	388	-	-
Total deposits	**29,868**	**21,945**	**23,249**

The Bank does not use the below undiscounted maturity analysis to manage liquidity as it shows contractual terms purely and disregard the actual expected behaviour of the instruments. Instead, the Bank monitors the liquidity gap analysis based on the expected maturities, for example undiscounted cash flow disclosure purposes, demand deposits are put in on demand bucket, while any of them can be considered in a different time bucket according to the actual expectations.

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2023:

	Demand Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	77,287	-	-	-	-	**77,287**
Mandatory reserves at the NBG	35,988	-	-	-	-	**35,988**
Investment securities	4,947	929	5,662	-	-	**11,538**
Loans to customers	22,781	60,821	126,892	103,732	14,591	**328,817**
Other financial assets	940	-	-	-	-	**940**
Total financial assets	**141,943**	**61,750**	**132,554**	**103,732**	**14,591**	**454,570**
Liabilities						
Deposits and balance from banks	48,811	22,731	38,290	-	-	**109,832**
Current accounts and deposits from Customers	101,601	24,408	37,786	9,048	279	**173,122**
Other borrowed funds	-	2,044	14,911	22,278	-	**39,233**
Other financial liabilities	2,098	90	412	3,700	465	**6,765**
Total financial liabilities	**152,510**	**49,273**	**91,399**	**35,026**	**744**	**328,952**
Net position	**(10,567)**	**12,477**	**41,155**	**68,706**	**13,847**	**125,618**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2022:

	Demand Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	57,785	-	-	-	-	**57,785**
Mandatory reserves at the NBG	39,030	-	-	-	-	**39,030**
Investment securities	996	-	-	1,357	-	**2,353**
Loans to customers	51,171	44,519	122,188	70,233	19,043	**307,154**
Other financial assets	1,095	-	-	-	-	**1,095**
Total financial assets	**150,077**	**44,519**	**122,188**	**71,590**	**19,043**	**407,417**
Liabilities						
Deposits and balance from banks	54,513	29,115	-	-	-	**83,628**
Current accounts and deposits from Customers	121,620	7,116	18,599	640	-	**147,975**
Other borrowed funds	-	2,184	6,620	6,413	42,379	**57,596**
Other financial liabilities	1,472	125	461	4,142	521	**6,721**
Total financial liabilities	**178,923**	**38,540**	**25,680**	**10,649**	**42,900**	**296,692**
Net position	**(28,846)**	**5,979**	**96,508**	**60,941**	**(23,857)**	**110,725**

(In thousands of GEL)

25 Risk Management, Corporate Governance and Internal Control (Continued)

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2021:

	Demand Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets						
Cash and cash equivalents	52,038	-	-	-	-	**52,038**
Amounts due from banks	1,832	2,784	4,129	-	-	**8,745**
Mandatory reserves at the NBG	38,427	-	-	-	-	**38,427**
Investment securities	1,497	-	6,799	6,163	-	**14,459**
Loans to customers	8,269	64,137	81,168	88,938	17,514	**260,026**
Other financial assets	1,561	-	-	-	-	**1,561**
Total financial assets	**103,624**	**66,921**	**92,096**	**95,101**	**17,514**	**375,256**
Liabilities						
Deposits and balance from banks	25,272	9,372	56,338	-	-	**90,982**
Current accounts and deposits from Customers	58,894	28,765	13,755	5,333	-	**106,747**
Other borrowed funds	-	-	16,189	53,492	3,504	**73,185**
Other financial liabilities	1,743	73	590	5,301	666	**8,373**
Total financial liabilities	**85,909**	**38,210**	**86,872**	**64,126**	**4,170**	**8,373**
Net position	**17,715**	**28,711**	**5,224**	**30,975**	**13,344**	**95,969**

(g) Operational and business risk

Operational risk is the risk of loss arising from system failure, human error, fraud and external events. When controls fail to operate effectively, 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 endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment procedures, such as the use of internal audit.

(In thousands of GEL)

26 Credit Related Commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments and financial guarantees as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2023	2022	2021
Contracted amount			
Undrawn overdraft facilities	48	54	30
Letter of Credit	-	1,210	2,690
Guarantees	121,146	94,726	107,823
Total credit related commitments	**121,194**	**95,990**	**110,543**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

Of these credit related commitments as at 31 December 2023 accounting GEL 89,073 thousand are to seven banks (2022: GEL 67,218 thousand, 2021: GEL 76,980 thousand). This exposure represents a significant concentration of credit risk exposure to the Bank.

All credit related commitments are allocated to Stage 1. ECL recognized for credit related commitments as at 31 December 2023 was GEL 438 thousand (2022: GEL 387 thousand; 2021: GEL 300 thousand) and there were no significant movements in ECL during the year.

27 Contingencies

(a) Litigations

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

(b) Operating environment

As an emerging market, Georgia does not possess a well–developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets. However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the management, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(c) Taxation contingencies

The taxation system in Georgia continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Compliance with covenants

The Bank is subject to certain financial and non-financial covenants primarily related to its other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including mandatory prepayment and declaration of default. The Bank was in compliance with all covenants as at 31 December 2023, 31 December 2022 and 31 December 2021.

(In thousands of GEL)

28 Related Party Transactions

Pursuant to IAS 24 “Related Party Disclosures”, parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm’s length basis.

(a) Transactions with the key management personnel

Total remuneration included in personnel expenses for the years ended 31 December 2023, 2022 and 2021 is as follows:

	2023	2022	2021
Short-term employee benefits	2,150	1,863	1,927

(b) Transactions with the related parties

The outstanding balances and related profit or loss amounts of transactions as at and for the year ended 31 December 2023 are as follows:

	Immediate parent company	Entities under common control	Key management personnel	Other related parties
Assets				
Cash and cash equivalents	906	38	-	-
Loans to customers	-	-	199	-
Liabilities				
Deposits and balances from banks	48,811	-	-	-
Current accounts and deposits from customers	-	-	134	3,923
Other liabilities	(1,419)	-	-	-
Interest income/(expense)				
Interest income	-	-	37	-
Interest expense	(430)	-	(10)	(129)
Other expenses	(919)	-	-	-

(In thousands of GEL)

28 Related Party Transactions (Continued)

The outstanding balances and related profit or loss amounts of transactions as at and for the year ended 31 December 2022 are as follows:

	Immediate parent company	Entities under common control	Key management personnel	Other related parties
Assets				
Cash and cash equivalents	34	55	-	-
Loans to customers	-	-	114	-
Liabilities				
Deposits and balances from banks	10,896	-	-	-
Current accounts and deposits from customers	-	-	23	8,831
Other liabilities	632	-	-	-
Income/(expense)				
Interest income	3	-	10	-
Interest expense	(55)	-	-	(153)
Other expenses	(826)	-	-	-

The outstanding balances and related profit or loss amounts of transactions as at and for the year ended 31 December 2021 are as follows:

	Immediate parent company	Entities under common control	Key management personnel	Other related parties
Assets				
Cash and cash equivalents	57	1,128	-	-
Amounts due from banks	912	-	-	-
Loans to customers	-	-	42	-
Liabilities				
Deposits and balances from banks	25,272	17,564	-	-
Current accounts and deposits from customers	-	-	305	20,736
Income/(expense)				
Interest income	20	-	8	-
Interest expense	(478)	(47)	-	(315)
Other expenses	(695)	-	-	-

The deposits from the Parent as at 31 December 2023 mature according to contractual maturity as follows: GEL 48,811 thousand matures in less than 12 months (2022: GEL 10,897 thousand matures in less than 12 months; 2021: GEL 25,272 thousand matures in less than 12 months).

The management has added previously omitted balances and transactions with related parties in the related party transactions disclosure, resulting in the restatement of the comparative disclosure notes. Set out below are the summary of the corrections for the year ended 31 December 2022 and 31 December 2021:

(In thousands of GEL)

28 Related Party Transactions (Continued)

Summary of the corrections for the year ended 31 December 2022:

	As originally presented	Restatement	As restated
Loans to customers	-	114	114
Current accounts and deposits from customers*	-	8,854	8,854
Other liabilities	-	632	632
Other expenses	-	(826)	(826)

*Out of GEL 8,854 thousand, GEL 23 thousand relates to current accounts and deposits from key management personnel and GEL 8,831 thousand from other related parties.

Summary of the corrections for the year ended 31 December 2021:

	As originally presented	Restatement	As restated
Loans to customers	-	42	42
Current accounts and deposits from customers*	-	21,041	21,041
Other expenses	-	(695)	(695)

*Out of GEL 21,041 thousand, GEL 305 thousand relates to current accounts and deposits from key management personnel and GEL 20,736 thousand from other related parties.

29 Fair Value Measurement

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

Financial assets and liabilities not measured at Fair Value

For the financial assets and financial liabilities carried at amortised cost, the Bank assumes that the carrying amounts approximate to their fair value.

Investment securities carried at FVOCI

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using models which incorporate data observable in the market (using quoted market prices in active market for similar instruments).

Fair Value Hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1**: quoted market price (unadjusted) in an active market for an identical instrument.

- **Level 2:** inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- **Level 3:** inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are value based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments. For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments. The table does not include the fair values of non-financial assets, non-financial liabilities and those financial assets and liabilities for which the fair value approximates carrying value.

(In thousands of GEL)

29 Fair value Measurement (Continued)

As at 31 December 2023, the Bank did not have any financial instruments measured at Fair Value.

As at 31 December 2022:

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Investment securities measured at FVOCI	-	2,353	-	2,353	2,353
Total	**-**	**2,353**	**-**	**2,353**	**2,353**

As at 31 December 2021:

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Investment securities measured at FVOCI	-	14,459	-	14,459	14,459
Total	**-**	**14,459**	**-**	**14,459**	**14,459**

30 Events after Reporting Date

There were no significant events after the reporting date that need to be presented in the financial statements.