JSC Liberty Bank and subsidiaries

Consolidated financial statements

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

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Building a better working world

Independent auditor's report

To the Shareholders and the Supervisory Board of
JSC Liberty Bank

Report on the audit of the consolidated financial statements

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers	
Given the significance of the loans to customers to the Group's financial position, and the complexity and judgements related to the estimation of expected credit losses under IFRS 9 *Financial Instruments* ("IFRS 9"), we considered this area as a key audit matter. The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates. Both collective and individual provisioning depend on a number of assumptions and judgments such as: ▸ Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); ▸ Allocation of loans to stage 1, 2 or 3 using criteria set in accordance with IFRS 9; ▸ Inputs and assumptions used to estimate the impact of multiple economic scenarios; ▸ Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD); and ▸ Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral. As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses. Information on the impairment of loans to customers is included in Note 8, *Loans to Customers* and Note 25, *Risk Management*, to the consolidated financial statements.	We obtained an understanding of the ECL process and, with support of our internal risk specialists, we evaluated the methodology developed by the Group. We focused on analysis of the following areas during our audit: ▸ Evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; ▸ Assessing management's judgement in relation to the identification of significant increases in credit risk and event of default on an individual and collective basis based on quantitative and qualitative criteria; evaluating consistency of application of the criteria selected by the management as of the reporting date; testing allocation of loans to respective impairment stages based on the criteria predefined in the Group's ECL methodology; ▸ For a sample of individually assessed loans, we evaluated the basis on which the allowance was determined and the evidence supporting the management analysis, challenged whether the key assumptions and inputs used were appropriate in the borrower's circumstances and recalculated the impairment allowance. For a sample of credit-impaired corporate exposures, we challenged assumptions on estimated future cash flows, including value of collaterals and probabilities of expected outcomes; ▸ To test allowance calculated on a collective basis, with the support of our internal risk specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. We assessed the disclosures in the consolidated financial statements on the impairment of loans to customers.

Other information included in the Group's 2021 Management report

Other information consists of the information included in the Management Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian *Law on Accounting, Reporting and Auditing*

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Management report for the financial year for which the financial statements are prepared is consistent with the Consolidated financial statements; and
- The Management report includes the information required by the Article 7 of the Georgian *Law on Accounting, Reporting and Auditing* and complies with respective regulatory normative acts.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili

For and on behalf of EY LLC

Tbilisi, Georgia

16 May 2022

Consolidated statement of financial position

As of 31 December 2021

(thousands of Georgian Lari)

	Notes	*2021*	*2020*
Assets			
Cash and cash equivalents	6	641,617	632,102
Amounts due from credit institutions	7	87,656	203,155
Loans to customers	8	1,879,721	1,604,854
Investment securities	9	239,654	271,192
Property and equipment	10	147,879	156,834
Intangible assets	11	55,893	52,338
Right of use assets	12	32,964	34,419
Prepayments	14	4,689	6,680
Deferred income tax assets	13	–	2,271
Current income tax asset		3,552	5,665
Other assets	14	18,930	20,301
Total assets		**3,112,555**	**2,989,811**
Liabilities			
Amounts due to financial institutions	16	349,727	322,005
Amounts due to customers	17	2,233,650	2,173,356
Deferred income tax liabilities	13	835	–
Lease liability	12	35,897	40,958
Other liabilities	14	30,145	31,654
Subordinated debt	18	112,460	113,572
Total liabilities		**2,762,714**	**2,681,545**
Equity	19		
Share capital		54,629	54,629
Additional paid-in capital		35,558	35,558
Treasury shares		(10,138)	(10,138)
Convertible preferred shares		4,565	4,565
Retained earnings		243,086	201,050
Other reserves		22,141	22,602
Total equity		**349,841**	**308,266**
Total liabilities and equity		**3,112,555**	**2,989,811**

Given the authority under Article 9.8 of the Bank's Charter, the present document is signed and authorized for release on behalf of the Management Board of the Bank by following directors:

Vakhtang Babunashvili — Chief Financial Officer

David Abashidze — Chief Risk Officer

16 May 2022

The accompanying notes on pages 5 to 65 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

(thousands of Georgian Lari)

	Notes	2021	2020
Interest income calculated using EIR method			
Loans to customers		330,915	265,548
Investment securities		22,807	17,359
Amounts due from credit institutions		5,785	6,797
		359,507	**289,704**
Interest expense			
Amounts due to customers		(120,496)	(118,743)
Amounts due to credit institutions and lease liabilities		(18,182)	(5,462)
Subordinated debt		(10,439)	(9,672)
		(149,117)	**(133,877)**
Net interest income		**210,390**	**155,827**
Credit loss expense	15	(34,234)	(50,138)
Net interest income after loan impairment charge		**176,156**	**105,689**
Net fee and commission income	21	20,221	19,493
Net (losses) from derecognition of financial instruments at fair value through profit or loss	8	–	(1,079)
Net gains/(losses) from foreign currencies:			
- Dealing and derivative revaluation	22	2,544	(5,213)
- Translation differences	22	(3,951)	13,160
Other income	23	18,276	13,961
Non-interest income		**37,090**	**40,322**
Personnel expenses	24	(81,240)	(78,023)
General and administrative expenses	24	(41,917)	(28,269)
Depreciation and amortization	10, 11, 12	(34,252)	(33,727)
Other operating expenses		(9,889)	(14,428)
Other impairment and provisions charge	15	(491)	(3,899)
Non-interest expense		**(167,789)**	**(158,346)**
Profit/(loss) before income tax expense		**45,457**	**(12,335)**
Income tax expense	13	(3,106)	7,424
Profit/(loss) for the year		**42,351**	**(4,911)**
Other comprehensive income			
Other comprehensive income not to be reclassified subsequently to profit or loss			
Revaluation of buildings		–	7,176
Deferred tax effect		–	(971)
Other comprehensive income for the year, net of tax		**–**	**6,205**
Total comprehensive income for the year		**42,351**	**1,294**
Earnings per share:	19		
Basic earnings per share (in ₾ full amount)		0.00926	(0.00127)
Diluted earnings per share (in ₾ full amount)		0.00926	(0.00127)

The accompanying notes on pages 5 to 65 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

(thousands of Georgian Lari)

	Attributable to shareholders of the Bank						
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Convertible preferred shares*	*Retained earnings*	*Other reserves*	*Total*
31 December 2019	**54,629**	**35,558**	**(10,138)**	**4,565**	**206,301**	**16,890**	**307,805**
Total comprehensive income for the year	–	–	–	–	(4,911)	6,205	**1,294**
Depreciation of revaluation reserve *(Note 19)*	–	–	–	–	436	(436)	**–**
Revaluation reserve of fixed assets sold *(Note 19)*	–	–	–	–	–	(57)	**(57)**
Dividends paid on the convertible preferred shares *(Note 19)*	–	–	–	–	(776)	–	**(776)**
31 December 2020	**54,629**	**35,558**	**(10,138)**	**4,565**	**201,050**	**22,602**	**308,266**
Total comprehensive income for the year	–	–	–	–	42,351	–	**42,351**
Depreciation of revaluation reserve *(Note 19)*	–	–	–	–	461	(461)	**–**
Revaluation reserve of fixed assets sold *(Note 19)*	–	–	–	–	–	–	**–**
Dividends paid on the convertible preferred shares *(Note 19)*	–	–	–	–	(776)	–	**(776)**
31 December 2021	**54,629**	**35,558**	**(10,138)**	**4,565**	**243,086**	**22,141**	**349,841**

The accompanying notes on pages 5 to 65 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

(thousands of Georgian Lari)

	Notes	*2021*	*2020*
Cash flows from operating activities			
Interest received		345,775	252,344
Interest paid		(149,981)	(159,893)
Fees and commissions received		34,692	30,691
Fees and commissions paid		(14,515)	(11,200)
Net realised (losses)/gains from dealing in foreign currencies		3,823	(3,124)
Other income received		9,927	13,308
Personnel expenses paid		(82,711)	(82,313)
Lease interest paid		(1,841)	(2,194)
General, administrative and other operating expenses paid		(55,271)	(32,087)
Cash flows from operating activities before changes in operating assets and liabilities		**89,898**	**5,532**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		107,344	(57,495)
Loans to customers		(336,573)	(380,750)
Prepayments and other assets		–	3,622
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		37,450	215,242
Amounts due to customers		100,080	539,617
Other liabilities		–	1,875
Net cash flows from operating activities before income tax		**(1,801)**	**327,643**
Income tax paid		–	–
Net cash flows from operating activities		**(1,801)**	**327,643**
Cash flows from investing activities			
Purchase of investment securities		(20,650)	(196,947)
Proceeds from redemption of investment securities		52,940	73,062
Purchase of intangibles, property and equipment		(12,077)	(32,991)
Proceeds from sale of repossessed property		14	127
Net cash flows from/(used in) investing activities		**20,227**	**(156,749)**
Cash flows from financing activities			
Repayment of lease liabilities	12	(7,289)	(7,757)
Issued of subordinated debt	18	7,504	–
Redemption of subordinated debt	18	(2,610)	–
Dividends paid to holders of the convertible preferred shares	19	(776)	(776)
Net cash from / (used in) financing activities		**(3,171)**	**(8,533)**
Effect of exchange rates changes on cash and cash equivalents		(5,740)	53,975
Net increase in cash and cash equivalents		**9,515**	**216,336**
Cash and cash equivalents, beginning	6	632,102	415,766
Cash and cash equivalents, ending	6	**641,617**	**632,102**

The accompanying notes on pages 5 to 65 are an integral part of these consolidated financial statements.

(thousands of Georgian Lari)

1. Principal activities

JSC Liberty Bank (the "Bank") is a joint stock company, formed in accordance with legislation of Georgia in 1993. The Bank operates under a general banking license No. 3500/10 issued by the National Bank of Georgia (the "NBG"), the central bank of Georgia, on 10 February 1993.

On 13 October 2017, Georgian Financial Group B.V. (the former European Financial Group B.V.), a company established and organised under the laws of the Kingdom of Netherlands, purchased 77.64% of equity interest in the Group. The ultimate beneficial owners of the Bank are Mr. Irakli Rukhadze, Mr. Ben Marson and Mr. Igor Alexeev.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its retail and corporate customers. Its main office is in Tbilisi, Georgia and as of 31 December 2021 it had 459 branches, service centers, distribution outlets and mobile banking units operating in Georgia (31 December 2020: 436). The Bank's registered legal address is Liberty Tower, 74 I. Chavchavadze Avenue, 0162 Tbilisi, Georgia.

As of 31 December 2021 and 2020, direct shareholders of the Bank were as follows:

	2021		*2020*	
Shareholder	***Ownership interest, %***	***Voting rights, %***	***Ownership interest, %***	***Voting rights, %***
Georgian Financial Group	74.38%	91.18%	74.38%	91.18%
Liberty Bank (Treasury Shares)	18.43%	–	18.43%	–
JSC Heritage Securities (NOMINEE Holder)	1.29%	–	1.62%	–
Other shareholders (individually holding less than 5%)	5.90%	8.82%	5.57%	8.82%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Bank is a publicly traded company and its ordinary shares are traded on the Georgian Stock Exchange. The free float amounted to 7.9% as of 31 December 2021 (31 December 2020: 7.9%).

These financial statements have not yet been approved by the shareholders of the Bank. The shareholders have the power and authority to amend the financial statements after the issuance.

The Bank is the parent company of the group (the "Group") which consists of the following entities consolidated in the financial statements, which had limited operations in 2021 and 2020:

		The Group ownership interest			
Name	***Country of incorporation***	***31 December 2021***	***31 December 2020***	***Date of incorporation***	***Activities***
Bus Stop LLC	Georgia	100.00%	100.00%	27 August 2009	Outdoor Advertising
JSC Smartex*	Georgia	21.47%	21.47%	5 January 2009	Early-stage VC investments

* *Accounted for in the Group's financial statements under the equity method.*

2. Basis of preparation

General

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

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, investment properties and buildings as disclosed in the accounting policies below.

These consolidated financial statements are presented in thousands of Georgian Lari ("₾"), except per share amounts and unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

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

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

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

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

The Group applied the practical expedients provided by the amendments.

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

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

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

Basis of consolidation

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

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

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

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

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

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

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

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

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

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

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

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

The SPPI test

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

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

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

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

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters 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 Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Amounts due from credit institutions

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Amounts due from credit institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

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

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

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

According to the Group's policy, only a limited number of products are subject to restructuring. All restructured loans are classified as Stage 2 loans and Lifetime PD rates are applied for the purpose of ECL calculation. It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 2 when at least three consecutive payments are present.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Write-off

Financial assets are written off either partially or in their entirety only when the Group 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.

Financial liabilities

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

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

Leases

i. Group as a lessee

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

Right-of-use assets

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases

The amount which the Group recognized related to short-term lease is GEL 2,016 (2020 – GEL 2,236 *(Note 21)*. (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

ii. Operating – Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

iii. Finance – Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia. It represents the sum of the current and deferred tax expenses.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Taxation (continued)

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

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

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

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis at the following annual prescribed rates:

Land and buildings	2%-5%
Furniture and fixtures	10%-20%
Computer and office equipment	15%-25%
Motor vehicles	20%-25%
Leasehold improvements	10%-25%

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

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

Land is not amortised and carried at fair value. Leasehold improvements are amortised over the life of the related leased assets.

Assets under construction comprise costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in other income when the compensation becomes receivable.

3. Summary of accounting policies (continued)

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both and which are not used or held for the sale in the ordinary course of business. Investment properties are initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment properties is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Earned rental income is recorded in the profit or loss within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment properties are recorded in consolidated statement of profit or loss and presented within other income or other operating expenses lines.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in general and administrative expenses. During the period of development, the asset is tested for impairment annually.

Provisions

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

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Group has no post-retirement benefits.

Share capital

Share capital and additional paid in capital

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

3. Summary of accounting policies (continued)

Share capital

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at the weighted average cost.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

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

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

Fee and commission income

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

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee income earned at a point in time

Fees arising from settlement, remittances, bill payments and cash operations are recognized upon completion of underlying transactions. Each operation is treated as a separate performance obligation.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Bank's and subsidiaries' functional and presentation currency. 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 are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency operations are recognised in the consolidated statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

The exchange rates used by the Group in the preparation of the consolidated financial statements as of 31 December 2021 and 31 December 2020 are as follows:

	2021	*2020*
₾ / 1 US Dollar	3.0976	3.2766
₾ / 1 Euro	3.5040	4.0233

4. Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the year ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the Group's financial condition.

(thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Impairment losses on financial assets

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

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life-time Expected Credit Loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group regularly reviews its loan book portfolio to assess borrower's ability to pay, conducts tests for impairment and uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers. Management uses probability estimates based on historical borrower experience including default familiarities and loss given defaults. The Group uses its experienced judgment to adjust observable data for a group of homogenous loans to reflect current circumstances and forward looking macroeconomic variables.

The Expected Credit Loss of financial assets in the consolidated financial statements have been determined on the basis of existing economic conditions.

Measurement of fair value of investment properties and buildings

Investment properties and buildings are stated at fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Buildings of the Group are subject to revaluation on a regular basis. The date of latest revaluation was 31 December 2020 *(Note 11)*.

As of 31 December 2021, fair value of investment properties was determined by independent professionally qualified appraisers. Fair value was determined by applying income approach based on discounted cash flow method, supported by the terms of any existing lease and other contracts and, when available, by external evidence such as current market rents for similar properties in a comparable location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The estimates of future cash flows include projections of cash outflows for rent or purchase of the land.

The estimates described above are subject to change as new transaction data and market evidence become available.

5. Segment information

As at 31 December 2021, management evaluates the whole Group as a single operating segment, Banking business. Segment performance, is measured from profit or loss, income taxes managed on a group basis in the consolidated financial statements. The Group operates in one geographical market – Georgia. Since the Group's assets are located in single geographical area, the Group's external income, total assets and capital expenditure are allocated to a single location.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2021	*2020*
Cash on hand	261,951	241,750
Current accounts with the NBG	39,133	14,585
Current accounts with other credit institutions	33,798	32,774
Time deposits with credit institutions up to 90 days	306,735	343,011
	641,617	**632,120**
Less – allowance for impairment	–	(18)
Cash and cash equivalents	**641,617**	**632,102**

As of 31 December 2021, ₾ 24,943 (31 December 2020: ₾ 26,620) was placed on current accounts with internationally recognised OECD banks that are the counterparties of the Group in performing international settlements.

Credit rating of current accounts with other credit institutions is as follows:

	2021	*2020*
A-	–	1
BBB+	24,908	–
BBB	–	27,918
BBB-	1,442	–
BB-	3,689	1,969
B	3,123	–
B+	402	11
Not rated	234	2,875
Total	**33,798**	**32,774**

Credit rating of time deposits with credit institutions up to 90 days is as follows:

	2021	*2020*
BB-	306,735	343,011
Total	**306,735**	**343,011**

The tables contain ratings of Fitch Ratings international agency. All balances of cash equivalents are allocated to Stage 1.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2021	*2020*
Obligatory reserve with the NBG	71,062	193,455
Guarantee deposits placed	15,921	9,404
Time deposits for more than 90 days	837	930
	87,820	**203,789**
Less – allowance for impairment	(164)	(634)
Amounts due from credit institutions	**87,656**	**203,155**

7. Amounts due from credit institutions (continued)

Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the NBG regulations. In 2021, the obligatory reserve percentages applied to certain categories of the Group's liabilities were revised downwards resulting in decrease in the amount of corresponding obligatory reserve asset. The Group is required to maintain a mandatory interest earning deposit with the NBG at the level of 5% to 25% (2020: 5% to 25%) of the average of funds attracted from customers and non-resident financial institutions for the appropriate two-week period in GEL and foreign currencies.

As of 31 December 2021, ₾ 15,921 (31 December 2020: ₾ 9,404) was a guarantee deposit placed for variation and safety margins defined in the Credit Support Annex (the "CSA") to the Schedule to the ISDA Master Agreement for funding swaps. Variation margin is modified from time to time based on the mark-to-market revaluation of the forward contracts. More details are provided in *Note 14*. The Group's assets and liabilities under the swap agreements can be offset against the collateral in certain circumstances as per the terms of the offsetting provisions in the relevant framework agreement. As at 31 December 2021 and 2020, derivative assets and respective collateral paid did not qualify to offset in accordance with IAS 32 *Financial Instruments: Presentation*.

An analysis of changes in the gross carrying value and corresponding ECL in relation to amount due from credit institutions during the year ended 31 December 2021 and 31 December 2020 is as follows:

	Gross caring value	*ECL*
As at 1 January 2021	**203,788**	**(634)**
New assets originated	59,906	(111)
Assets repaid	(168,613)	524
Foreign exchange and other movements	(7,261)	57
At 31 December 2021	**87,820**	**(164)**

	Gross caring value	*ECL*
As at 1 January 2020	**124,912**	**(430)**
New assets originated	82,681	(274)
Assets repaid	(26,810)	131
Foreign exchange and other movements	23,006	(61)
At 31 December 2020	**203,789**	**(634)**

All balances of amounts due from credit institutions are allocated to Stage 1.

8. Loans to customers

Loans to customers comprise:

	2021	*2020*
Commercial loans	576,361	501,621
Consumer loans	487,031	319,558
Loans to clients with regular inflows	397,350	470,472
Micro loans	261,470	166,308
Residential mortgage loans	166,105	153,439
Gold pawn loans	142,313	122,215
Gross loans to customers at amortised cost	**2,030,630**	**1,733,613**
Less – allowance for impairment	(150,909)	(128,759)
Loans to customers at amortised cost	**1,879,721**	**1,604,854**

8. Loans to customers (continued)

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to commercial loans during the year ended 31 December 2021 and 31 December 2020 is as follows:

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**377,455**	**120,008**	**4,158**	**501,621**
New assets originated or purchased	646,159	–	–	**646,159**
Assets repaid	(538,413)	(46,630)	(1,749)	**(586,792)**
Transfers to Stage 1	7,676	(7,521)	(155)	**–**
Transfers to Stage 2	(41,074)	41,353	(279)	**–**
Transfers to Stage 3	(2,876)	(3,413)	6,289	**–**
Unwinding of discount	–	–	123	**123**
Recoveries	–	–	159	**159**
Amounts written off	–	–	(182)	**(182)**
Foreign exchange and other movements	17,941	(2,149)	(519)	**15,273**
At 31 December 2021	**466,868**	**101,648**	**7,845**	**576,361**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**314,539**	**20,691**	**460**	**335,690**
New assets originated or purchased	373,972	–	–	**373,972**
Assets repaid	(199,892)	(37,030)	(2,812)	**(239,734)**
Transfers to Stage 1	17,993	(17,574)	(419)	**–**
Transfers to Stage 2	(154,588)	155,513	(925)	**–**
Transfers to Stage 3	(2,219)	(4,746)	6,965	**–**
Capitalization of interest	(1,186)	(907)	–	**(2,093)**
Unwinding of discount	–	–	37	**37**
Recoveries	–	–	–	**–**
Amounts written off	–	–	(16)	**(16)**
Foreign exchange and other movements	28,836	4,061	868	**33,765**
At 31 December 2020	**377,455**	**120,008**	**4,158**	**501,621**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**7,979**	**9,368**	**1,518**	**18,865**
New assets originated or purchased	13,268	–	–	**13,268**
Assets repaid	(8,508)	(4,284)	(462)	**(13,254)**
Transfers to Stage 1	503	(405)	(98)	**–**
Transfers to Stage 2	(2,653)	2,794	(141)	**–**
Transfers to Stage 3	(378)	(405)	783	**–**
Unwinding of discount	–	–	123	**123**
Impact on period end ECL of exposures transferred between stages during the period	(418)	1,247	885	**1,714**
Recoveries	–	–	159	**159**
Amounts written off	–	–	(182)	**(182)**
Foreign exchange and other movements	(2,369)	(1,021)	319	**(3,071)**
At 31 December 2021	**7,424**	**7,294**	**2,904**	**17,622**

8. Loans to customers (continued)

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

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**2,828**	**1,096**	**191**	**4,115**
New assets originated or purchased	9,241	–	–	**9,241**
Assets repaid	(3,819)	(3,758)	(1,253)	**(8,830)**
Transfers to Stage 1	687	(669)	(18)	**–**
Transfers to Stage 2	(6,500)	7,076	(576)	**–**
Transfers to Stage 3	(824)	(1,074)	1,898	**–**
Impact on period end ECL of exposures transferred between stages during the period	(205)	5,360	585	**5,740**
Unwinding of discount	–	–	37	**37**
Recoveries	–	–	–	**–**
Amounts written off	–	–	(16)	**(16)**
Foreign exchange and other movements	6,571	1,337	670	**8,578**
At 31 December 2020	**7,979**	**9,368**	**1,518**	**18,865**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**256,678**	**13,518**	**49,362**	**319,558**
New assets originated or purchased	565,397	–	–	**565,397**
Assets repaid	(445,018)	(14,793)	(6,958)	**(466,769)**
Transfers to Stage 1	3,710	(3,482)	(228)	**–**
Transfers to Stage 2	(36,717)	37,493	(776)	**–**
Transfers to Stage 3	(2,450)	(17,969)	20,419	**–**
Unwinding of discount	–	–	3,614	**3,614**
Recoveries	–	–	626	**626**
Amounts written off	–	–	(11,484)	**(11,484)**
Foreign exchange and other movements	70,582	3,266	2,241	**76,089**
At 31 December 2021	**412,182**	**18,033**	**56,816**	**487,031**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**151,201**	**6,950**	**44,054**	**202,205**
New assets originated or purchased	310,841	–	–	**310,841**
Assets repaid	(229,501)	(11,500)	(5,688)	**(246,689)**
Transfers to Stage 1	4,521	(4,139)	(382)	**–**
Transfers to Stage 2	(26,264)	26,693	(429)	**–**
Transfers to Stage 3	(921)	(7,385)	8,306	**–**
Capitalization of interest	(758)	(33)	–	**(791)**
Unwinding of discount	–	–	299	**299**
Recoveries	–	–	560	**560**
Amounts written off	–	–	(2,931)	**(2,931)**
Foreign exchange and other movements	47,559	2,932	5,573	**56,064**
At 31 December 2020	**256,678**	**13,518**	**49,362**	**319,558**

(thousands of Georgian Lari)

8. Loans to customers (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**4,848**	**4,143**	**43,459**	**52,450**
New assets originated or purchased	7,885	–	–	**7,885**
Assets repaid	(7,005)	(3,767)	(5,154)	**(15,926)**
Transfers to Stage 1	1,263	(1,151)	(112)	**–**
Transfers to Stage 2	(552)	959	(407)	**–**
Transfers to Stage 3	(123)	(1,151)	1,274	**–**
Unwinding of discount	–	–	3,614	**3,614**
Impact on period end ECL of exposures transferred between stages during the period	(1,212)	10,279	4,543	**13,610**
Recoveries	–	–	626	**626**
Amounts written off	–	–	(11,484)	**(11,484)**
Foreign exchange and other movements	2,852	(3,669)	10,186	**9,369**
At 31 December 2021	**7,956**	**5,643**	**46,545**	**60,144**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**1,282**	**1,363**	**40,065**	**42,710**
New assets originated or purchased	4,408	–	–	**4,408**
Assets repaid	(3,925)	(2,288)	(5,349)	**(11,562)**
Transfers to Stage 1	2,991	(1,250)	(1,741)	**–**
Transfers to Stage 2	(616)	1,902	(1,286)	**–**
Transfers to Stage 3	(6)	(2,378)	2,384	**–**
Impact on period end ECL of exposures transferred between stages during the period	(1,645)	6,102	8,503	**12,960**
Unwinding of discount	–	–	299	**299**
Recoveries	–	–	560	**560**
Amounts written off	–	–	(2,931)	**(2,931)**
Foreign exchange and other movements	2,359	692	2,955	**6,006**
At 31 December 2020	**4,848**	**4,143**	**43,459**	**52,450**

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**444,813**	**2,420**	**23,239**	**470,472**
New assets originated or purchased	651,995	–	–	**651,995**
Assets repaid	(809,806)	(4,172)	(25,483)	**(839,461)**
Transfers to Stage 1	5,267	(3,356)	(1,911)	**–**
Transfers to Stage 2	(10,637)	10,833	(196)	**–**
Transfers to Stage 3	(37,493)	(5,035)	42,528	**–**
Unwinding of discount	–	–	547	**547**
Recoveries	–	–	1,373	**1,373**
Amounts written off	–	–	(8,505)	**(8,505)**
Foreign exchange and other movements	118,788	689	1,452	**120,929**
At 31 December 2021	**362,927**	**1,379**	**33,044**	**397,350**

8. Loans to customers (continued)

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to retail clients with regular inflows during the year ended 31 December 2021 and 31 December 2020 is as follows:

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**389,272**	**5,061**	**23,803**	**418,136**
New assets originated or purchased	1,346,993	–	–	**1,346,993**
Assets repaid	(1,350,323)	(8,072)	(16,241)	**(1,374,636)**
Transfers to Stage 1	13,542	(6,434)	(7,108)	**–**
Transfers to Stage 2	(16,284)	16,384	(100)	**–**
Transfers to Stage 3	(26,300)	(5,074)	31,374	**–**
Capitalization of interest	(16,223)	(9)	(174)	**(16,406)**
Unwinding of discount	–	–	4,724	**4,724**
Recoveries	–	–	1,170	**1,170**
Amounts written off	–	–	(12,539)	**(12,539)**
Foreign exchange and other movements	104,136	564	(1,670)	**103,030**
At 31 December 2020	**444,813**	**2,420**	**23,239**	**470,472**

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**13,599**	**957**	**19,488**	**34,044**
New assets originated or purchased	14,789	–	–	**14,789**
Assets repaid	(19,832)	(1,690)	(18,013)	**(39,535)**
Transfers to Stage 1	2,705	(1,150)	(1,555)	**–**
Transfers to Stage 2	(232)	389	(157)	**–**
Transfers to Stage 3	(1,032)	(1,150)	2,182	**–**
Unwinding of discount	–	–	547	**547**
Impact on period end ECL of exposures transferred between stages during the period	(2,572)	2,661	25,790	**25,879**
Recoveries	–	–	1,373	**1,373**
Amounts written off	–	–	(8,505)	**(8,505)**
Foreign exchange and other movements	4,020	505	9,791	**14,316**
At 31 December 2021	**11,445**	**522**	**30,941**	**42,908**

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**5,057**	**2,932**	**19,905**	**27,894**
New assets originated or purchased	37,763	–	–	**37,763**
Assets repaid	(37,436)	(3,184)	(5,111)	**(45,731)**
Transfers to Stage 1	10,109	(3,512)	(6,597)	**–**
Transfers to Stage 2	(307)	383	(76)	**–**
Transfers to Stage 3	(595)	(1,883)	2,478	**–**
Impact on period end ECL of exposures transferred between stages during the period	(4,571)	6,045	18,609	**20,083**
Unwinding of discount	–	–	4,724	**4,724**
Recoveries	–	–	1,171	**1,171**
Amounts written off	–	–	(12,539)	**(12,539)**
Foreign exchange and other movements	3,579	176	(3,076)	**679**
At 31 December 2020	**13,599**	**957**	**19,488**	**34,044**

8. Loans to customers (continued)

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to Micro loans during the year ended 31 December 2021 and 31 December 2020 is as follows:

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**127,773**	**23,958**	**14,577**	**166,308**
New assets originated or purchased	264,540	–	–	**264,540**
Assets repaid	(181,608)	(15,577)	(4,912)	**(202,097)**
Transfers to Stage 1	2,017	(1,902)	(115)	**–**
Transfers to Stage 2	(21,024)	21,448	(424)	**–**
Transfers to Stage 3	(4,354)	(8,481)	12,835	**–**
Unwinding of discount	–	–	2,013	**2,013**
Recoveries	–	–	475	**475**
Amounts written off	–	–	(1,722)	**(1,722)**
Foreign exchange and other movements	31,276	1,336	(659)	**31,953**
At 31 December 2021	**218,620**	**20,782**	**22,068**	**261,470**

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**86,475**	**4,282**	**12,474**	**103,231**
New assets originated or purchased	130,209	–	–	**130,209**
Assets repaid	(77,694)	(4,057)	(4,153)	**(85,904)**
Transfers to Stage 1	1,614	(1,408)	(206)	**–**
Transfers to Stage 2	(30,169)	30,417	(248)	**–**
Transfers to Stage 3	(1,501)	(6,580)	8,081	**–**
Capitalization of interest	(218)	(12)	–	**(230)**
Unwinding of discount	–	–	405	**405**
Recoveries	–	–	213	**213**
Amounts written off	–	–	(2,172)	**(2,172)**
Foreign exchange and other movements	19,057	1,316	183	**20,556**
At 31 December 2020	**127,773**	**23,958**	**14,577**	**166,308**

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**3,396**	**5,714**	**10,055**	**19,165**
New assets originated or purchased	8,020	–	–	**8,020**
Assets repaid	(4,879)	(3,388)	(2,773)	**(11,040)**
Transfers to Stage 1	798	(736)	(62)	**–**
Transfers to Stage 2	(869)	1,090	(221)	**–**
Transfers to Stage 3	(961)	(736)	1,697	**–**
Unwinding of discount	–	–	2,013	**2,013**
Impact on period end ECL of exposures transferred between stages during the period	(745)	5,118	1,492	**5,865**
Recoveries	–	–	475	**475**
Amounts written off	–	–	(1,722)	**(1,722)**
Foreign exchange and other movements	2,681	(2,196)	2,992	**3,477**
At 31 December 2021	**7,441**	**4,866**	**13,946**	**26,253**

(thousands of Georgian Lari)

8. Loans to customers (continued)

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

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**2,401**	**1,725**	**8,992**	**13,118**
New assets originated or purchased	3,590	–	–	**3,590**
Assets repaid	(1,587)	(1,348)	(3,059)	**(5,994)**
Transfers to Stage 1	667	(548)	(119)	**–**
Transfers to Stage 2	(1,946)	2,090	(144)	**–**
Transfers to Stage 3	(5)	(3,311)	3,316	**–**
Impact on period end ECL of exposures transferred between stages during the period	(624)	6,562	2,323	**8,261**
Unwinding of discount	–	–	405	**405**
Recoveries	–	–	213	**213**
Amounts written off	–	–	(2,172)	**(2,172)**
Foreign exchange and other movements	900	544	300	**1,744**
At 31 December 2020	**3,396**	**5,714**	**10,055**	**19,165**

An analysis of changes in the gross carrying value and corresponding ECL in relation to residential mortgage loans during the year ended 31 December 2021 and 31 December 2020 is as follows:

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**144,370**	**7,034**	**2,035**	**153,439**
New assets originated or purchased	76,855	–	–	**76,855**
Assets repaid	(68,782)	(4,164)	(1,304)	**(74,250)**
Transfers to Stage 1	1,197	(1,197)	–	**–**
Transfers to Stage 2	(6,627)	7,334	(707)	**–**
Transfers to Stage 3	–	(1,608)	1,608	**–**
Unwinding of discount	–	–	110	**110**
Recoveries	–	–	94	**94**
Amounts written off	–	–	(14)	**(14)**
Foreign exchange and other movements	10,166	(139)	(156)	**9,871**
At 31 December 2021	**157,179**	**7,260**	**1,666**	**166,105**

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**84,084**	**1,384**	**1,704**	**87,172**
New assets originated or purchased	85,359	–	–	**85,359**
Assets repaid	(26,278)	(2,412)	(632)	**(29,322)**
Transfers to Stage 1	1,518	(1,311)	(207)	**–**
Transfers to Stage 2	(10,215)	10,439	(224)	**–**
Transfers to Stage 3	–	(1,481)	1,481	**–**
Capitalization of interest	(142)	(13)	–	**(155)**
Unwinding of discount	–	–	21	**21**
Recoveries	–	–	80	**80**
Amounts written off	–	–	(179)	**(179)**
Foreign exchange and other movements	10,044	428	(9)	**10,463**
At 31 December 2020	**144,370**	**7,034**	**2,035**	**153,439**

8. Loans to customers (continued)

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

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**1,703**	**1,346**	**1,013**	**4,062**
New assets originated or purchased	523	–	–	**523**
Assets repaid	(552)	(835)	(654)	**(2,041)**
Transfers to Stage 1	157	(157)	–	**–**
Transfers to Stage 2	(81)	378	(297)	**–**
Transfers to Stage 3	(6)	(157)	163	**–**
Unwinding of discount			110	**110**
Impact on period end ECL of exposures transferred between stages during the period	(87)	1,421	421	**1,755**
Recoveries	–	–	94	**94**
Amounts written off	–	–	(14)	**(14)**
Foreign exchange and other movements	(591)	(295)	308	**(578)**
At 31 December 2021	**1,066**	**1,701**	**1,144**	**3,911**

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**639**	**204**	**1,107**	**1,950**
New assets originated or purchased	781	–	–	**781**
Assets repaid	(309)	(575)	(492)	**(1,376)**
Transfers to Stage 1	542	(288)	(254)	**–**
Transfers to Stage 2	(190)	348	(158)	**–**
Transfers to Stage 3	–	(334)	334	**–**
Impact on period end ECL of exposures transferred between stages during the period	(527)	1,786	570	**1,829**
Unwinding of discount	–	–	21	**21**
Recoveries	–	–	80	**80**
Amounts written off	–	–	(179)	**(179)**
Foreign exchange and other movements	767	205	(16)	**956**
At 31 December 2020	**1,703**	**1,346**	**1,013**	**4,062**

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold pawn loans during the year ended 31 December 2021 and 31 December 2020 is as follows:

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**121,247**	**452**	**516**	**122,215**
New assets originated or purchased	254,600	–	–	**254,600**
Assets repaid	(255,183)	(486)	(1,669)	**(257,338)**
Transfers to Stage 1	1,188	(843)	(345)	**–**
Transfers to Stage 2	(3,450)	3,450	–	**–**
Transfers to Stage 3	–	(2,128)	2,128	**–**
Unwinding of discount	–	–	5	**5**
Recoveries	–	–	193	**193**
Amounts written off	–	–	(1)	**(1)**
Foreign exchange and other movements	22,556	114	(31)	**22,639**
At 31 December 2021	**140,958**	**559**	**796**	**142,313**

8. Loans to customers (continued)

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

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2020	**119,529**	**277**	**1,896**	**121,702**
New assets originated or purchased	253,530	–	–	**253,530**
Assets repaid	(269,162)	(688)	(4,632)	**(274,482)**
Transfers to Stage 1	2,776	(863)	(1,913)	**–**
Transfers to Stage 2	(7,275)	7,275	–	**–**
Transfers to Stage 3	–	(5,804)	5,804	**–**
Capitalization of interest	–	–	–	**–**
Unwinding of discount	–	–	32	**32**
Recoveries	–	–	1,678	**1,678**
Amounts written off	–	–	(4,283)	**(4,283)**
Foreign exchange and other movements	21,849	255	1,934	**24,038**
At 31 December 2020	**121,247**	**452**	**516**	**122,215**

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**150**	**–**	**23**	**173**
New assets originated or purchased	34	–	–	**34**
Assets repaid	(165)	–	(17)	**(182)**
Transfers to Stage 1	4	(2)	(2)	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	–	(2)	2	**–**
Unwinding of discount	–	–	5	**5**
Impact on period end ECL of exposures transferred between stages during the period	(4)	5	5	**6**
Recoveries	–	–	193	**193**
Amounts written off	–	–	(1)	**(1)**
Foreign exchange and other movements	27	(2)	(182)	**(157)**
At 31 December 2021	**44**	**1**	**26**	**71**

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**39**	**–**	**1,809**	**1,848**
New assets originated or purchased	23	–	–	**23**
Assets repaid	(38)	–	(1,634)	**(1,672)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	3	–	2,259	**2,262**
Unwinding of discount	–	–	32	**32**
Recoveries	–	–	1,678	**1,678**
Amounts written off	–	–	(4,283)	**(4,283)**
Foreign exchange and other movements	123	–	162	**285**
At 31 December 2020	**150**	**–**	**23**	**173**

Collateral

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2021 would have been higher by ₾ 1,072 (as of 31 December 2020: 340).

8. Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2021, the concentration of loans granted by the Group to ten largest third party borrowers comprised ₾ 188,983 accounting for 9.35% of the gross loan portfolio of the Group (2020: ₾ 175,002 and 10.91% respectively). An allowance of ₾ 3,773 (2020: ₾ 6,558) was established against these loans.

Loans have been extended to the following types of customers:

	2021	*2020*
Individuals	1,451,897	1,246,470
Private companies	578,733	487,143
Loans to customers, gross	**2,030,630**	**1,733,613**
Less – allowance for loan impairment	(150,909)	(128,759)
Loans to customers, net	**1,879,721**	**1,604,854**

Loans are made principally within Georgia in the following industry sectors:

	2021	*2020*
Individuals	1,451,897	1,246,470
Trade and service	310,938	300,689
Construction	65,442	40,169
Healthcare	36,589	22,251
Agricultural	34,260	18,444
Non-banking credit organization	33,637	15,859
Energy	29,471	40,246
Mining	26,029	–
Tourism and hospitality	16,117	18,720
Manufacturing	15,885	18,121
Transportation and communication	1,648	6,116
Other	8,717	6,528
Loans to customers, gross	**2,030,630**	**1,733,613**
Less – allowance for loan impairment	(150,909)	(128,759)
Loans to customers, net	**1,879,721**	**1,604,854**

9. Investment securities

Investment securities comprise:

Debt securities at amortised cost	*2021*	*2020*
Treasury bonds of the Ministry of Finance of Georgia	240,106	238,440
Treasury bills of the Ministry of Finance of Georgia	–	28,772
Certificates of deposit of the NBG	–	4,543
	240,106	**271,755**
Less – allowance for impairment	(452)	(563)
Debt securities at amortised cost	**239,654**	**271,192**

As of 31 December 2021, ₾ 169,434 (₾ 145,854 as of 31 December 2020) worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia.

9. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2021 and 31 December 2020 is as follows:

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2021	**–**	**4,543**	**28,772**	**238,441**	**271,755**
New assets originated	–	150	–	20,500	**20,650**
Assets repaid	–	(4,740)	(30,063)	(18,137)	**(52,940)**
Other movements	–	47	1,291	(698)	**640**
At 31 December 2021	**–**	**–**	**–**	**240,106**	**240,106**

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2020	**5,244**	**–**	**12,101**	**129,879**	**147,224**
New assets originated	–	11,634	39,085	146,228	**196,947**
Assets repaid	(5,244)	(7,044)	(21,522)	(39,252)	**(73,062)**
Other movements	–	(47)	(892)	1,585	**646**
At 31 December 2020	**–**	**4,543**	**28,772**	**238,440**	**271,755**

All balances of investment securities are allocated to stage 1. An analysis of changes in the ECL allowances during the year ended 31 December 2021 is, as follows:

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2021	**–**	**(9)**	**(53)**	**(502)**	**(564)**
New assets originated	–	–	–	(39)	**(39)**
Assets repaid	–	9	56	44	**109**
Change in ECL rate	–	–	–	43	**43**
Other movements	–	–	(3)	2	**(1)**
At 31 December 2021	**–**	**–**	**–**	**(452)**	**(452)**

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2020	**(27)**	**–**	**(54)**	**(639)**	**(720)**
New assets originated	–	(24)	(81)	(321)	**(426)**
Assets repaid	27	15	80	462	**584**
Other movements	–	–	2	(3)	**(1)**
At 31 December 2020	**–**	**(9)**	**(53)**	**(501)**	**(563)**

10. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2020	**91,987**	**107,190**	**38,607**	**17,692**	**16,143**	**–**	**271,619**
Additions	830	3,837	2,029	9	244	–	**6,949**
Disposals	–	(268)	(373)	(325)	(2,111)	–	**(3,077)**
Revaluation	–	–	–	–	–	–	**–**
Transfer	–	–	–	–	–	–	**–**
31 December 2021	**92,817**	**110,759**	**40,263**	**17,376**	**14,276**	**–**	**275,491**
Accumulated depreciation and impairment							
31 December 2020	**–**	**62,156**	**29,757**	**15,221**	**7,651**	**–**	**114,785**
Depreciation charge	1,817	8,453	2,455	967	1,314	–	**15,006**
Disposals	–	(267)	(369)	(325)	(1,218)	–	**(2,179)**
Revaluation	–	–	–	–	–	–	**–**
31 December 2021	**1,817**	**70,342**	**31,843**	**15,863**	**7,747**	**–**	**127,612**
Net book value							
31 December 2020	**91,987**	**45,034**	**8,850**	**2,471**	**8,492**	**–**	**156,834**
31 December 2021	**91,000**	**40,417**	**8,420**	**1,513**	**6,529**	**–**	**147,879**

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2019	**82,777**	**100,373**	**38,367**	**17,421**	**15,051**	**2,569**	**256,558**
Additions	1,468	7,070	1,308	466	1,281	–	**11,593**
Disposals	(306)	(253)	(1,068)	(195)	(189)	–	**(2,011)**
Revaluation	5,479	–	–	–	–	–	**5,479**
Transfer	2,569	–	–	–	–	(2,569)	**–**
31 December 2020	**91,987**	**107,190**	**38,607**	**17,692**	**16,143**	**–**	**271,619**
Accumulated depreciation and impairment							
31 December 2019	**–**	**53,552**	**28,235**	**14,178**	**6,338**	**–**	**102,303**
Depreciation charge	1,697	8,856	2,596	1,068	1,460	–	**15,677**
Disposals	–	(252)	(1,074)	(25)	(147)	–	**(1,498)**
Revaluation	(1,697)	–	–	–	–	–	**(1,697)**
31 December 2020	**–**	**62,156**	**29,757**	**15,221**	**7,651**	**–**	**114,785**
Net book value							
31 December 2019	**82,777**	**46,821**	**10,132**	**3,243**	**8,713**	**2,569**	**154,255**
31 December 2020	**91,987**	**45,034**	**8,850**	**2,471**	**8,492**	**–**	**156,834**

Buildings and land of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2020. As a result of revaluation of land and buildings, the carrying value increased by ₾ 7,176 out of which ₾ 104 applied to previously impaired buildings, therefore respective revaluation gain was recognized in the statement profit or loss.

The Group's buildings are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2021 and 2020.

10. Property and equipment (continued)

If the land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2021	*2020*
Cost	65,714	59,405
Accumulated depreciation and impairment	(14,091)	(12,777)
Net carrying amount	**51,623**	**46,628**

The gross carrying amount of fully depreciated property and equipment that is still in use is as follows:

	Furniture and fixtures	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost amount					
31 December 2021	31,779	24,499	12,910	1,874	**71,062**
31 December 2020	27,096	22,899	12,519	1,617	**64,131**

11. Intangible assets

The movements in intangible assets, which comprised computer software and licenses, were as follows:

	Computer software and licenses
Cost	
31 December 2019	**84,269**
Additions	14,131
31 December 2020	**98,400**
Additions	15,672
31 December 2021	**114,072**
Accumulated amortization	
31 December 2019	**35,769**
Amortisation charge	10,293
31 December 2020	**46,062**
Amortisation charge	12,117
31 December 2021	**58,179**
Net book value	
31 December 2019	**48,500**
31 December 2020	**52,338**
31 December 2021	**55,893**

12. The right of use assets and lease liabilities

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets – buildings	***Lease liabilities***
As at 1 January 2021	**34,419**	**40,958**
Additions	13,773	13,773
Depreciation expense	(7,129)	–
Interest expense	–	1,841
Payments	–	(10,083)
Payment of VAT	–	953
Other income	–	(133)
Disposal	(13,036)	(9,668)
Depreciation of disposal	4,937	–
Foreign exchange	–	(1,744)
As at 31 December 2021	**32,964**	**35,897**

	Right-of-use assets – buildings	***Lease liabilities***
As at 1 January 2020	**34,217**	**37,080**
Additions	19,423	19,423
Depreciation expense	(7,757)	–
Interest expense	–	2,194
Payments	–	(9,951)
Payment of VAT	–	871
Other income	–	(920)
Disposal	(15,570)	(12,913)
Depreciation of disposal	4,106	–
Foreign exchange	–	5,174
As at 31 December 2020	**34,419**	**40,958**

Group recognized rent expense from short-term leases of GEL 2,016 (2020: of GEL 2,236). The Group had total cash outflows for leases of GEL 10,083 in 2021 (2020: of GEL 9,951).

Due to the COVID-19 pandemic, during 2021 the Group conducted active negotiations with lessors for reduction of lease payments. As a result, the Group achieved discounts of the current period lease payments from several owners, therefore GEL 133 was saved in cash and respective effect reflected in current year statement of comprehensive income. This discounts were effective during 2021 and as of 31 December 2021 original agreed prices became effective, therefore this discounts are not applicable to the future periods, unless new agreements are made.

13. Taxation

The corporate income tax expense comprised:

	2021	***2020***
Current year tax charge	–	–
Deferred tax charge – origination and reversal of temporary differences	3,106	(7,424)
Income tax expense	**3,106**	**(7,424)**

13. Taxation (continued)

On 12 June 2018 amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance business became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019, as previously enacted in 2016. The change had an immediate impact on deferred tax asset and liability balances attributable to previously recognized temporary differences arising from prior periods. As at 31 December 2020, the deferred tax assets and liabilities were remeasured in line with the new date for the change to be implemented. During the transitional period the Group will only continue to recognize the portion of deferred tax assets and liabilities arising on items charged or credited to income statement during the same period, which it expects to utilize before 1 January 2023. The Group used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realised or settled in the periods after January 2023.

The tax rate for banks for profits other than on state securities was 15% for 2021 and 2020. The tax rate for interest income on state securities and the NBG deposits is 0%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2021	*2020*
(Loss)/profit before income tax expense	**45,457**	**(12,335)**
Statutory tax rate	15%	15%
Theoretical income tax (benefit)/expense at the statutory rate	**6,819**	**(1,850)**
Tax loss carried forward	–	(411)
Non-taxable income	(4,551)	(3,094)
Effect from changes in future tax rates and other movements	(280)	(2,108)
Non-tax deductible expenses	1,118	39
Income tax expense	**3,106**	**(7,424)**

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

	2019	*In the statement of profit or loss*	*In the statement of comprehensive income*	*2020*	*In the statement of profit or loss*	*In the statement of comprehensive income*	*2021*
Tax effect of deductible temporary differences							
Tax loss carried forward	684	5,081	–	5,765	(5,225)	–	540
Other assets	504	146	–	650	(35)	–	615
Lease liabilities	5,562	581	–	6,143	(757)	–	5,386
Other liabilities	680	(167)	–	513	1,042	–	1,555
Deferred tax asset	**7,430**	**5,641**	**–**	**13,071**	**(4,975)**	**–**	**8,096**
Tax effect of taxable temporary differences							
Loans to customers	(973)	(235)	–	(1,208)	320	–	(888)
Right of use assets	(5,132)	(31)	–	(5,163)	218	–	(4,945)
Property and equipment, and intangible assets	(5,507)	2,049	(971)	(4,429)	1,331	–	(3,098)
Deferred tax liabilities	**(11,612)**	**1,783**	**(971)**	**(10,800)**	**1,869**	**–**	**(8,931)**
Net deferred tax assets/ (liabilities)	**(4,182)**	**7,424**	**(971)**	**2,271**	**(3,106)**	**–**	**(835)**

(thousands of Georgian Lari)

14. Other assets, prepayments and other liabilities

Other assets comprise

	2021	*2020*
Investment properties	3,491	3,267
Receivables from debtors	3,293	1,678
Inventories	2,823	3,016
Receivable from insurance claims	2,654	–
Receivables from remittances systems operators	2,483	1,725
Investment in associate	1,138	1,257
Derivative asset	1,093	2,297
Repossessed property	1,054	951
Receivable from guarantees paid	950	950
Prepaid taxes other than income tax	825	2,873
Other	2,609	5,261
Total	**22,413**	**23,275**
Less – allowance for impairment of other assets	(3,483)	(2,974)
Other assets	**18,930**	**20,301**

Investment properties

Investment properties primarily comprise of class B office space located in downtown Zugdidi with total rental space of 1,582 square meters and several other properties located outside of Tbilisi.

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation was 31 December 2021. The valuation was performed by an accredited independent valuator with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Refer to *Note 26* for details.

There were no significant movements in investment properties except for the fair value revaluation.

The Group's investment properties items are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2021 and 2020.

Derivative financial instruments

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

	2021				*2020*			
	Notional amount		*Fair Value*		*Notional amount*		*Fair Value*	
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*
Foreign exchange contracts								
Forwards and swaps – domestic	176,120	(176,916)	1,093	(318)	165,941	(170,794)	184	(5,025)
Forwards and swaps – foreign	–	(105,144)	–	(9,526)	68,507	(38,781)	2,113	(4,719)
Total derivative assets/liabilities	**176,120**	**(282,060)**	**1,093**	**(9,844)**	**234,448**	**(209,575)**	**2,297**	**(9,744)**

As of 31 December 2021, the Group has positions in the derivative financial instrument currency forwards. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

The Group's forward is classified to Level 2 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2021 and 2020.

14. Other assets, prepayments and other liabilities (continued)

Prepayments comprise

	2021	*2020*
Prepayments for fixed and intangible assets	2,148	4,320
Prepaid insurance	974	872
Prepayments for professional services	676	651
Prepaid rent	78	62
Other	813	775
Total prepayments	**4,689**	**6,680**

Other liabilities comprise

	2021	*2020*
Derivative liability (see above)	9,844	9,744
Bonus accrual	5,023	710
Payables for creditors	4,650	3,467
Taxes payable other than income tax	1,694	3,754
Funds pending settlements	1,589	4,615
Sundry creditors	1,469	3,549
Provisions for loan commitments	1,258	1,804
Provisions for losses from operating risks	883	3,381
Other	3,735	630
Other liabilities	**30,145**	**31,654**

15. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2021:

31 December 2021	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Amounts due from credit institutions	7	(470)	–	–	**(470)**
Loans to customers at amortised cost	8	5,160	89	29,477	**34,726**
Debt securities measured at amortised cost	9	(111)	–	–	**(111)**
Financial guarantees	20	89	–	–	**89**
Total credit loss expense		**4,668**	**89**	**29,477**	**34,234**

31 December 2020	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Amounts due from credit institutions	7	204	–	–	**204**
Loans to customers at amortised cost	8	15,422	17,656	16,945	**50,023**
Debt securities measured at amortised cost	9	(53)	–	–	**(53)**
Financial guarantees	20	(36)	–	–	**(36)**
Total credit loss expense		**15,537**	**17,656**	**16,945**	**50,138**

15. Credit loss expense and other impairment and provisions (continued)

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Provision for various contingencies*	*Provisions for losses from operating risks*	*Total*
31 December 2020	**2,974**	**–**	**3,381**	**6,355**
Charge/(reversal)	509	–	(18)	**491**
Write-offs	–	–	(2,480)	**(2,480)**
31 December 2021	**3,483**	**–**	**883**	**4,366**

	Other assets	*Provision for various contingencies*	*Provisions for losses from operating risks*	*Total*
31 December 2019	**2,354**	**139**	**–**	**2,493**
Charge/(reversal)	620	(102)	3,381	**3,899**
Write-offs	–	(37)	–	**(37)**
31 December 2020	**2,974**	**–**	**3,381**	**6,355**

Provisions for losses from operating risks are recorded in other liabilities.

The Group is exposed to the risk of loss from its operations associated with misappropriation of assets. Management has a system of controls and monitoring to detect such activities, to reduce the risk of loss. Despite such controls, losses may still occur due to circumvention of controls by means of collusion and/or other planned actions by perpetrators. For such cases, the Group holds active insurance policies. As at 31 December 2021 the Group holds insurance policies with a risk coverage of GEL 5 million for losses from operating risks.

16. Amounts due to financial institutions

Amounts due to financial institutions comprise:

	2021	*2020*
Borrowings from the NBG	246,137	221,500
Borrowings from international financial institutions	97,753	82,869
Current accounts	4,999	6,776
Time deposits of local commercial banks	838	10,860
Amounts due to financial institutions	**349,727**	**322,005**

On 23 December 2021 the Group obtained a loan from the NBG in amount of ₾ 31,000 maturing on 20 January 2022; and on 30 December 2021 – ₾ 215,000 maturing on 6 January 2022. The loans are issued under a collateral with the same face value as the loan amount.

In September 2020, the Group entered into a USD 15 million (4.87%) loan agreement with the U.S. International Development Finance Corporation (DFC) and a EUR 15 million (Tranche 1 – USD 4,5 million with interest rate of 1.54% and Tranche 2 – USD 10,5 million with interest rate of 1.17%) loan agreement with the European Investment Bank (EIB) maturing in 2029 and 2027, respectively. During 2021 the Bank attracted new funds amounted to EUR 2,113 million (3,8%) and EUR 2,22 million (3.87%) from the Microfinance Enhancement Facility (MEF) maturing on 31 January 2025 and from the EIB amounted to EUR 2,5 million (1.36%) maturing on 17 December 2026.

(thousands of Georgian Lari)

17. Amounts due to customers

Amounts due to customers comprise:

	2021	*2020*
Current accounts	1,291,708	1,319,213
Time deposits (including certificates of deposits)	941,942	854,143
Amounts due to customers	**2,233,650**	**2,173,356**
Held as security against guarantees issued *(Note 20)*	1,327	2,635

At 31 December 2021, amounts due to customers of ₾ 518,705 (23.2%) were due to the ten largest customers (31 December 2020: ₾ 571,925 (26.3%)).

Amounts due to customers include accounts with the following types of customers:

	2021	*2020*
Individuals	1,220,349	1,224,351
Private enterprises	440,604	539,248
State and public sector	572,697	409,757
Amounts due to customers	**2,233,650**	**2,173,356**

Amounts due to customers by economic sector are as follows:

	2021	*2020*
Individuals	1,220,349	1,224,351
State and public sector	572,697	409,757
Real estate constructions	257,327	20,068
Non-banking financial organisations	70,929	38,573
Transportation and communication	21,171	296,063
Trade and service	12,655	91,904
Agriculture	7,380	1,341
Energy	1,544	656
Mining industry	67	3,858
Other	69,531	86,785
Amounts due to customers	**2,233,650**	**2,173,356**

18. Subordinated debt

The Group issues unsecured Subordinated Loan Contracts (the "SLCs") to high-net-worth individuals and corporate clients. The Group does not have subordinated liabilities to entities, that exceed 10% of total subordinated debt. The primary reason for the issuance of the SLCs is to attract Tier 2 qualified capital to support the Group's capitalization.

As of 31 December 2021, the Group had ₾ 112,460 (31 December 2020: ₾ 113,572) of subordinated debt outstanding, of which the amortised value qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was ₾ 74,104 (31 December 2020: ₾ 83,415).

18. Subordinated debt (continued)

	Subordinated debt
Carrying amount at 31 December 2019	**100,031**
Proceeds from issue	–
Repayment	–
Foreign currency translation	13,493
Other	48
Carrying amount at 31 December 2020	**113,572**
Proceeds from issue	7,504
Repayment	(2,610)
Foreign currency translation	(6,012)
Other	6
Carrying amount at 31 December 2021	**112,460**

19. Equity

Share capital

As of 31 December 2021, the authorised share capital of the Bank comprised 7,500,000,000 ordinary shares, of which 5,502,254,354 were issued, 5,462,874,502 ordinary shares were fully paid of which 1,013,828,327 shares represented treasury shares (31 December 2020: the authorised share capital was 7,500,000,000 ordinary shares, of which 5,502,254,354 were issued and 5,462,874,502 were fully paid including 1,013,828,327 treasury shares). Each share has nominal value of ₾ 0.01. From the total number of ordinary shares issued, 39,379,845 (2020: 39,379,845) shares have been sold on a deferred payment basis to Stichting Liberty ESOP and are attributable to the share-based compensation programme. Grants under these shares have vested prior to 1 January 2020. The Group has no current employee share option plans in 2021 or 2020.

The share capital of the Bank was contributed by the shareholders in ₾ and they are entitled to dividends and any capital distribution in ₾.

As of 31 December 2021, and 2020, the book value per ordinary share comprised ₾ 0.0769 and ₾ 0.0677, respectively.

Convertible preferred shares

The convertible preferred shares are perpetual and can be converted, at the holder's discretion, into ordinary shares of the Bank at the conversion price based on 1.05 times the IFRS audited ordinary equity book value of the Bank per ordinary share outstanding (net of any treasury shares) as of the end of the preceding calendar year.

The dividend rate on the convertible preferred shares is 17% per annum, payable annually, subject to the AGM approval in each given year. The dividends are non-cumulative. The conversion option was classified as equity component as of the initial recognition date.

The ability to pay dividends is subject to the Bank's financial condition and results of operations and compliance with the prudential capital adequacy requirements and may be restricted by the NBG.

Basic/diluted earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period (net of any treasury shares). Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of the effect of all dilutive potential ordinary shares (but ignoring any treasury shares), which comprise share options granted to employees and the convertible preferred shares.

19. Equity (continued)

Basic/diluted earnings per share (continued)

In 2021, net income attributable to ordinary shareholders of the Bank comprised ₾ 42,351 (2020: loss ₾ 4.911) and the weighted average number of ordinary shares outstanding during the year was 4,488,426,027 (2020: 4,488,426,027), resulting in earnings per share of ₾ 0.00926 for 2021 (2020: ₾ 0.00127).

At 31 December 2021, the convertible preferred shares did not have a dilutive effect as the conversion price of ₾ 0.08 exceeded the quoted weighted average market price for the period of ₾ 0.014. At 31 December 2020, the convertible preferred shares did not have a dilutive effect as the conversion price of ₾ 0.07 exceeded the quoted weighted average market price as of the end of reporting period ₾ 0.015. Thus, the potential dilution did not include the potential effect from the conversion of 4,565,353 convertible preferred shares into ordinary shares as of 31 December 2021.

Dividends

The Bank did not pay dividends on its ordinary shares in 2021 or 2020. The Bank paid dividends on the convertible preferred shares in the amount of ₾ 776 in 2021 (2020: ₾776).

Other reserves

Movements in other reserves were as follows:

	Revaluation reserve for property and equipment
At 31 December 2019	**16,890**
Revaluation reserve, net of tax	6,205
Revaluation reserve of sold assets, net of tax	(57)
Depreciation of revaluation reserve, net of tax	(436)
At 31 December 2020	**22,602**
Revaluation reserve, net of tax	–
Revaluation reserve of sold assets, net of tax	–
Depreciation of revaluation reserve, net of tax	(461)
At 31 December 2021	**22,141**

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of the buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

20. Commitments and contingencies

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 (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity 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 Board, 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.

20. Commitments and contingencies (continued)

Legal

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

Financial commitments and contingencies

The Group's commitments and contingencies comprised the following:

	2021	*2020*
Credit related commitments		
Guarantees	17,293	12,098
Undrawn loan commitments	121,888	124,625
	139,181	**136,723**
Operating lease commitments		
Not later than 1 year	1,022	1,326
Later than 1 year but not later than 5 years	873	720
Later than 5 years	121	190
	2,016	**2,236**
Capital expenditure commitments	3,733	2,706
Commitments and contingencies (before deducting collateral)	**144,930**	**141,665**
Less – cash held as security against guarantees issued *(Note 17)*	(1,327)	(2,635)
Commitments and contingencies	**143,603**	**139,030**

As of 31 December 2021, and 2020, the Bank had Bankers Blanket Bond insurance, Directors and Officers liability insurance, and Property and Vehicle insurance coverage.

All commitments are allocated to stage 1 and there were no significant movements in ECL during the year.

21. Net fee and commission income

Net fee and commission income comprise:

	2021	*2020*
Plastic card operations	18,456	15,456
Settlements operations	9,055	8,984
Remittances	2,750	2,750
Cash operations	2,174	1,969
Fee income received from bill payments	2,019	1,334
Guarantees and letters of credit	209	187
Other	72	13
Fee and commission income	**34,735**	**30,693**
Plastic card operations	(12,497)	(9,620)
Settlements operations	(1,068)	(937)
Fee expense paid for bill payments	(432)	(409)
Cash operations	(371)	(137)
Guarantees and letters of credit	(146)	(97)
Fee and commission expense	**(14,514)**	**(11,200)**
Net fee and commission income	**20,221**	**19,493**

21. Net fee and commission income (continued)

Revenue from contracts with customers

The Group's revenue from contracts with customers is mostly represented by fee and commission income. Revenue from contracts with customers recognized in the statement of profit or loss for the year ended 31 December 2021 amounted to ₾ 34,735 (2019: ₾ 30,693).

The Group 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.

22. Net gains/(losses) from foreign currencies

	2021	*2020*
Dealing	7,084	7,426
Translation differences	(3,951)	13,160
Net result from foreign currency derivatives	(4,540)	(12,639)
	(1,407)	**7,947**

Net result from foreign currency derivatives includes ₾ 3,261 (2020: ₾ 10,549) realized losses, which are presented in dealing and derivative revaluation in consolidated statement of comprehensive income.

23. Other income

Other income comprises:

	2021	*2020*
Income from penalty on late payments on customer loans and advances	9,030	6,457
Income from insurance claims	2,732	–
Income from state subsidy related to COVID-19	1,884	2,882
Effect from termination of lease contracts	1,715	2,244
Gain from sale of assets	254	152
Income from rent	123	102
Other	2,538	2,124
Total other income	**18,276**	**13,961**

24. Personnel and general and administrative expenses

Personnel and general and administrative expenses comprise:

	2021	*2020*
Salaries	66,336	72,064
Variable monthly bonuses	8,323	5,959
Performance based discretionary bonus pool	6,581	–
Personnel expenses	**81,240**	**78,023**

(thousands of Georgian Lari)

24. Personnel and general and administrative expenses (continued)

Average number of employees for the year:

	2021	*2020*
Permanent employment		
Top Management	4	6
Middle Management	167	204
Other employees	4,797	4,369
Temporary employment		
Other employees	743	633
Total	**5,711**	**5,212**

	2021	*2020*
Repair and maintenance	9,189	1,648
Marketing and advertising	6,408	4,076
Legal and other professional services	5,130	3,487
Utility expense	3,624	2,535
Communications	3,507	3,347
Occupancy and rent	2,781	2,638
Operating taxes	2,552	2,467
Office supplies	2,433	3,025
Insurance	1,625	925
Security	782	1,017
Audit, audit related and other service expenses	523	449
Corporate hospitality and entertainment	488	246
Travel expenses	390	407
Other	2,485	2,002
General and administrative expenses	**41,917**	**28,269**

Remuneration of the Bank's auditor for the years ended 31 December 2021 and 2020 comprises (net of VAT):

	2021	*2020*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	353	364
Expenditures for other professional services	135	225
Total fees and expenditures	**488**	**589**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services comprised ₾ 107 (2020: ₾ 20).

25. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk, operational risk and other non-financial risks. The risk management framework adopted by the Group sets the boundaries of risk bearing capacity for each risk and business line and ensures its compliance.

(thousands of Georgian Lari)

25. Risk management (continued)

Introduction (continued)

The responsibility of the individuals responsible for risk management is to ensure the compliance of the Group to the Risk Appetite Statement ("RAS") set by the Supervisory Board of the Bank. The compliance is ensured by continuous monitoring of the RAS parameters and proposing any changes to these parameters when circumstances change. The Enterprise Risk Management ("ERM") Division has the overall responsibility for monitoring of the RAS set by the Supervisory Board. RAS establishes escalation routes for trigger events and limits breaches in order to timely and effectively initiate and implement pre-defined mitigation actions. For the purposes of effective inclusion into daily activities of the Group, RAS parameters are detailed into more granular business unit and transactional levels. With the active involvement of Management Board risk management functions ensure proper communication and clarity at all levels regarding risk objectives, constant monitoring of risk profile against risk appetite, timely escalation of risk-related alerts and design of mitigating actions.

Risk management framework and structure

The Supervisory Board of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Supervisory Board has established committees, which are responsible for developing and monitoring Group risk management policies in relevant specified areas, which are communicated through RAS.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards, procedures and trainings aims, has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Audit Committee is assisted in these functions by Internal Audit.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function, which examines, by undertaking regular and ad-hoc reviews, both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with the Management Board and reports its findings and recommendations to the Audit Committee.

Other structural units

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. Risk Appetite metrics are set by the Supervisory Board and monitored by the following committees and units with the active involvement of Management Board:

- Credit risk is managed by the Credit Risk Committees;
- Liquidity risk is managed by Asset-Liability Committee ("ALCO");
- Market risk is managed by ALCO;
- Operational risk is managed by the Operational Risk Management Department with close cooperation of Management Board;
- Information security and technology risks are managed by Information Security Department.

All committees have representatives of all relevant business units and report regularly to the Management Board.

25. Risk management (continued)

Risk management framework and structure (continued)

Business lines represent the primary owners of risks affecting daily activities and operations within the Group. Business processes incorporate controlling activities performed by the relevant risk unit representatives. Units with risk management functions represent the second line of defense. The following departments are responsible for day-to-management of credit, liquidity, market, operational and other financial risks:

- Enterprise Risk Management;
- Credit Underwriting;
- Credit Administration;
- Credit Controlling;
- Collections;
- Operational Risk Management;
- Information Security.

Anti-Money Laundering ("AML") and Compliance Risks are managed by Operational Risk Management Department. Collections function is divided into two broad sub-functions, each responsible for leading and monitoring collection process per types of outstanding receivables.

Business lines represent the primary owners of risks affecting daily activities and operations within the Group. Business processes incorporate day-to-day involvement of risk management representatives, with focus on risk identification, analysis, evaluation and treatment.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience.

Monitoring and controlling risks is primarily performed based on limits established by the RAS. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. Senior management assesses the appropriateness of the allowance for expected credit losses on a monthly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

The Group uses collaterals (precious metals, real estate, deposits, securities, movable property, receivables and company shares) and diversification to mitigate its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group risk management functions ensure that potential negative impact from concentration is identified in a timely manner, respective risks properly measured and evaluated, and, ultimately, responsive actions planned and realised. RAS sets overall limits on excessive credit risk, liquidity and market risk concentrations.

25. Risk management (continued)

Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits.

Where appropriate, the Group obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Impairment assessment

The Group 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. In some cases, the Group uses conservative approach to use outstanding exposure as EAD.
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, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the 12 months' expected credit loss (12mECL), unless there has been significant increase in credit risk since origination or other impairment indicators were identified, in which case 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). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

25. Risk management (continued)

Credit risk (continued)

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

Stage 1:	When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 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, the Group 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.
Stage 3:	Loans considered credit-impaired. The Group records an allowance for the LGD.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default for individually significant exposures;
- The borrower requesting emergency funding from the Group;
- The death of the borrower;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Group's independent Credit Risk Department operates through the S&P rating models based on scorecards for the significant exposures. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

25. Risk management (continued)

Credit risk (continued)

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending and residential mortgages

Homogenous retail loan groups are modeled based on the most relevant macroeconomic variables. Subsequently, each individual product is assigned an individual macroeconomic scenario. Each retail product is assigned a minimum of 3 macroeconomic variables. Other key inputs into the models are GDP growth, unemployment rates, changes in personal income/salary levels, personal indebtedness, monetary policy rate, nominal effective exchange rate (NEE), CPI inflation and for residential mortgages, LTV ratios.

Exposure at default

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

Loss given default

For corporate lending assets, LGD values are assessed at semi-annually by account managers and reviewed and approved by the Group's credit risk department.

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

The Group segments its retail lending products into smaller homogenous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. This assessment involves analysis of various parameters including but not limited to deterioration of financial position and performance. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Group calculates ECLs either on a collective or on an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- From Stage 3 assets, only individually significant risk exposures, regardless of the class of financial assets;
- Stage 2 and Stage 3 Corporate and SME loans with exposures per borrower exceeding ₾ 300 thousands;
- Individually significant risk exposures are evaluated for credit losses on individual basis. According to the Group's methodology the minimum limit for individually significant risk exposures is ₾ 300 thousands;
- The exposures less than ₾ 300 thousands can be subject to individual assessment based on the Group's management decision;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI).

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's small business lending;
- All retail products.

The Group groups these exposures into smaller homogenous portfolios, based on a combination of internal and external characteristics of the loans, for example overdue bucket, product type, loan-to-value ratios, or borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth;
- Unemployment rates;
- Monetary policy rate;
- Foreign exchange rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group obtains the forward-looking information published by the National Bank of Georgia. Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2021*	*2022*	*2023*
Change in Country Sovereign Risk Premium*					
	Upside	25%	-2.5 pp	-0.2 pp	-1.0 pp
	Base case	50%	-2.5 pp	+0.0 pp	-0.25 pp
	Downside	25%	-2.5 pp	+2.0 pp	-0.5 pp
GEL/USD Nominal Exchange Rate					
	Upside	25%	Unchanged	Appreciation 4%	Appreciation 2%
	Base case	50%	Unchanged	Unchanged	Unchanged
	Downside	25%	Unchanged	Depreciation 10%	Appreciation 2%
Real GDP Growth (YoY)					
	Upside	25%	10.0%	5.0%	5.0%
	Base case	50%	10.0%	5.0%	4.0%
	Downside	25%	10.0%	2.0%	4.0%
Change in Unemployment rate					
	Upside	25%	+2.0 pp	-2.0 pp	-1.5 pp
	Base case	50%	+2.0 pp	-1.5 pp	-1.0 pp
	Downside	25%	+2.0 pp	+0.5 pp	-1.0 pp
CPI Inflation (YoY)					
	Upside	25%	9.5%	5.5%	3.0%
	Base case	50%	9.5%	7.0%	2.5%
	Downside	25%	9.5%	8.0%	4.0%
Monetary Policy Rate (%)					
	Upside	25%	Unchanged	-2.5pp	-1.0 pp
	Base case	50%	Unchanged	-2.0 pp	-1.5 pp
	Downside	25%	Unchanged	+0.5 pp	-2.0 pp
Nominal Effective Exchange Rate (NEER)					
	Upside	25%	Unchanged	Appreciation 2.5%	Appreciation 1.5%
	Base case	50%	Unchanged	Unchanged	Unchanged
	Downside	25%	Unchanged	Depreciation 6%	Appreciation 1.5%

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on categories specified in the tables.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

As of 31 December 2021,	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	7	Stage 1	**379,666**	**–**	**–**	**–**	**379,666**
Amounts due from credit institutions	9	Stage 1	**87,656**	**–**	**–**	**–**	**87,656**
Loans to customers at amortised cost	8		**1,828,394**	**18,494**	**8,140**	**24,693**	**1,879,721**
		Stage 1	349,172	2,218	92	–	**351,482**
		Stage 2	460	153	244	–	**857**
Loans to clients with regular inflows		Stage 3	–	51	97	1,955	**2,103**
		Stage 1	209,898	1,228	53	–	**211,179**
		Stage 2	14,721	265	930	–	**15,916**
Micro loans		Stage 3	–	95	159	7,868	**8,122**
		Stage 1	393,698	10,150	378	–	**404,226**
		Stage 2	7,054	1,953	3,383	–	**12,390**
Consumer loans		Stage 3	–	140	271	9,860	**10,271**
		Stage 1	155,726	387	–	–	**156,113**
		Stage 2	4,793	257	509	–	**5,559**
Residential mortgage loans		Stage 3	–	–	26	496	**522**
		Stage 1	139,879	999	36	–	**140,914**
Gold Pawn loans		Stage 2	–	–	558	–	**558**
		Stage 3	–	–	–	770	**770**
		Stage 1	458,846	598	–	–	**459,444**
		Stage 2	94,147	–	207	–	**94,354**
Corporate and SME loans		Stage 3	–	–	1,197	3,744	**4,941**
Debt investment securities	9	Stage 1	239,654	–	–	–	**239,654**
Undrawn loan commitments	20	Stage 1	121,888	–	–	–	**121,888**
Financial guarantees	20	Stage 1	17,293	–	–	–	**17,293**
Total			**2,674,551**	**18,494**	**8,140**	**24,693**	**2,725,878**

25. Risk management (continued)

Credit risk (continued)

As of 31 December 2020	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	7	Stage 1	**390,352**	**–**	**–**	**–**	**390,352**
Amounts due from credit institutions	9	Stage 1	**203,155**	**–**	**–**	**–**	**203,155**
Loans to customers at amortised cost	8		**1,567,272**	**15,963**	**3,920**	**17,699**	**1,604,854**
		Stage 1	429,745	1,303	166	–	**431,214**
		Stage 2	960	210	292	–	**1,462**
Loans to clients with regular inflows		Stage 3	–	36	93	3,623	**3,752**
		Stage 1	122,975	1,216	186	–	**124,377**
		Stage 2	17,334	246	665	–	**18,245**
Micro loans		Stage 3	–	31	158	4,332	**4,521**
		Stage 1	245,550	6,205	75	–	**251,830**
		Stage 2	6,514	1,637	1,224	–	**9,375**
Consumer loans		Stage 3	–	76	223	5,604	**5,903**
		Stage 1	142,043	617	7	–	**142,667**
		Stage 2	4,920	530	238	–	**5,688**
Residential mortgage loans		Stage 3	–	–	15	1,007	**1,022**
		Stage 1	120,272	825	–	–	**121,097**
Gold Pawn loans		Stage 2	–	–	452	–	**452**
		Stage 3	–	–	–	493	**493**
		Stage 1	367,996	1,436	44	–	**369,476**
		Stage 2	108,963	1,595	82	–	**110,640**
Corporate and SME loans		Stage 3	–	–	–	2,640	**2,640**
Debt investment securities	9	Stage 1	271,192	–	–	–	**271,192**
Measured at amortised cost			–	–	–	–	**–**
Undrawn loan commitments	20	Stage 1	124,625	–	–	–	**124,625**
Financial guarantees	20	Stage 1	12,098	–	–	–	**12,098**
Total			**2,568,694**	**15,963**	**3,920**	**17,699**	**2,606,276**

The credit risk assessment policy for financial assets has been determined by the Group for balance sheet exposures as follows:

- A financial asset that is not past due at the reporting date is assessed as a financial asset with high grade;
- A financial asset that is less than 30 days past due at the reporting date is assessed as a financial asset with standard grade;
- A financial asset that is past due more than 30 days and less than 90 days past the reporting date is assessed as a financial asset with sub-standard grade.

The credit risk assessment policy for financial assets has been determined by the Group for balance sheet exposures as follows:

- Grading for Undrawn loan commitments for clients, who have loans or any other balance sheet exposures are in line with balance sheet grade. For other undrawn loan commitments, conditional undrawn loan commitments are considered to be High grade. Unconditional undrawn loan commitments are graded in line with clients' credibility monitored by the Group's experts;
- Financial guarantees are considered High grade if the client performs under contractual conditions. If the client mostly performs well under the contract, it is classified as standard grade, while poor performance is considered sub-standard and breach of contract impaired.

25. Risk management (continued)

Credit risk (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories. The attributable risk ratings are assessed and updated regularly.

The geographical concentration of the Group's assets and liabilities is set out below:

	2021				*2020*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	312,782	327,031	1,804	**641,617**	262,607	367,993	1,502	**632,102**
Amounts due from credit institutions	87,656	–	–	**87,656**	203,155	–	–	**203,155**
Loans to customers	1,879,721	–	–	**1,879,721**	1,604,854	–	–	**1,604,854**
Investment securities	239,654	–	–	**239,654**	271,192	–	–	**271,192**
Other assets	260,890	1,592	1,425	**263,907**	274,823	2,451	1,234	**278,508**
	2,780,703	**328,623**	**3,229**	**3,112,555**	**2,616,631**	**370,444**	**2,736**	**2,989,811**
Liabilities								
Amounts due to credit institutions	251,958	97,753	16	**349,727**	237,007	82,869	2,129	**322,005**
Amounts due to customers	2,110,150	75,451	48,049	**2,233,650**	2,122,177	30,010	21,169	**2,173,356**
Subordinated debt	77,275	23,761	11,424	**112,460**	72,397	27,535	13,640	**113,572**
Lease liability	35,897	–	–	**35,897**	40,958	–	–	**40,958**
Other liabilities	30,313	667	–	**30,980**	29,432	1,700	522	**31,654**
	2,505,593	**197,632**	**59,489**	**2,762,714**	**2,501,971**	**142,114**	**37,460**	**2,681,545**
Net assets/(liabilities)	**275,110**	**130,991**	**(56,260)**	**349,841**	**114,660**	**228,330**	**(34,724)**	**308,266**

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group monitors actual and expected loan prepayments or potential late repayment requests and takes necessary actions to prevent or minimize potential loss by taking best possible actions. The group proactively conducts negotiations to new potential borrowers to compensate the interest income shortage due to early repayment. Any extra liquidity is invested in interest earning assets based on the internal liquidity management practices.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income	*Effect on equity*
2021	(21,039)	(17,883)
2020	(15,583)	(13,245)

(thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management

Liquidity risk management and supervision

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Other objectives include securing a balanced financing mix for the Group's activities, compliance with standards set by the NBG, managing crisis situations and controlling the cost of funding.

The main liquidity risk mitigation techniques are building liquidity reserves, diversifying funding sources and extending financing maturities. However, significant liquidity in excess of statutory requirements due to unexpected net cash inflows should be avoided and the Management Board should examine options to reduce liquidity to an appropriate level.

The Treasury Department is responsible for the management of the liquidity and funding risk within targets, boundaries and limits being set out in the RAS. The Treasury Department manages the liquidity risk on a centralised level and reports to the Management Board at least weekly. Key decisions on liquidity risk management and monitoring are taken by the ALCO. Input for analysis for ALCO purposes is presented by Treasury Department and ERM Division. ERM performs additional monthly stress-tests on liquidity position of the Bank and reports the results to the ALCO.

The Bank maintains a Recovery Plan which includes pressure on liquidity triggers and recovery plan strategy. Since the precise nature of any stress event cannot be known in advance, the plans are designed to be flexible to the nature and severity of the stress event and provide a menu of options that could be used as appropriate at the time. The liquidity triggers are monitored by Treasury Department and ERM Division on a daily basis. Any potential trigger event is escalated to the Management Board level and should be discussed at the ALCO meeting. Recovery Plan contains step-by-step actions, to generate additional liquidity in order to facilitate recovery in a severe stress, and is executed by the Head of Treasury Department under the supervision of ALCO and Management Board.

The Group uses stress testing and scenario analysis to evaluate the impact of a sudden and severe stress events on its liquidity position. The scenarios cover the Group-specific and market related risk events.

Statutory requirement

The NBG requires all banks in Georgia to maintain average liquidity ratio, calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity of up to 6 months, of no less than 30.0%. The Bank's average liquidity ratio for the month was 39.35% as of 31 December 2021 (31 December 2020: 47.11%).

The liquidity coverage ratio (LCR) is calculated following Basel III framework. The NBG requires all banks to maintain the LCR of 75.0% in ₾, and LCR of 100.0% in foreign currency and total LCR of 100% on a daily basis. As of 31 December 2021, the Bank's total LCR stood at 134.7%, the LCR in ₾ was 86.9% and the LCR in foreign currency was 205.9% (31 December 2020: total LCR stood at 146.6%, the LCR in ₾ was 110.9% and the LCR in foreign currency was 173.7%).

Analysis by remaining contractual maturities

The tables below summarise the maturity profile of the Group's financial liabilities as of 31 December 2021 and as of 31 December 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

25. Risk management (continued)

Liquidity risk and funding management (continued)

As of 31 December 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Non-derivative financial liabilities					
Amounts due to credit institutions	253,832	10,039	78,807	17,095	**359,773**
Amounts due to customers	1,543,669	466,105	267,507	56,045	**2,333,326**
Lease liability	2,188	6,224	21,700	10,054	**40,166**
Subordinated debt	2,861	7,248	107,826	30,244	**148,179**
Total undiscounted financial liabilities	**1,802,550**	**489,616**	**475,840**	**113,438**	**2,881,444**
Derivative financial instruments – gross settled					
Positive fair value of derivatives					
(Inflow)	(68,611)	–	–	–	(68,611)
Outflow	69,703	–	–	–	**69,703**
Derivative financial instruments – gross settled					
Negative fair value of derivatives					
(Inflow)	(107,509)	–	(93,784)	–	**(201,293)**
Outflow	107,213	–	105,144	–	**212,357**

As of 31 December 2020	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Non-derivative financial liabilities					
Amounts due to credit institutions	240,413	1,258	56,646	33,241	**331,558**
Amounts due to customers	1,516,275	397,173	279,571	86,609	**2,279,628**
Lease liability	2,427	7,274	32,036	18,137	**59,874**
Subordinated debt	2,187	7,354	140,477	3,413	**153,431**
Total undiscounted financial liabilities	**1,761,302**	**413,059**	**508,730**	**141,400**	**2,824,491**
Derivative financial instruments – gross settled					
Positive fair value of derivatives					
(Inflow)	(8,214)	–	(70,948)	–	**(79,162)**
Outflow	8,028	–	68,507	–	**76,535**
Derivative financial instruments – gross settled					
Negative fair value of derivatives					
(Inflow)	(157,727)	(33,898)	–	–	**(191,625)**
Outflow	162,766	38,781	–	–	**201,547**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2021	139,629	4,306	873	122	**144,930**
2020	137,490	2,154	1,831	190	**141,665**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

(thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management (continued)

Maturity analysis of assets and liabilities

Treasury Department manages the maturity analysis of assets and liabilities. Modeling of assets and liabilities is necessary where contractual maturity does not adequately reflect the liquidity risk position. The most significant example in this context for the Group would be current and savings accounts from retail, corporate and municipal and other state entities. Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Bank's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Group's operations and liquidity needs. Table below shows the maturity analysis of the Group's monetary assets and liabilities according to when they are expected to be recovered or settled.

	2021			*2020*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	641,617	–	**641,617**	632,102	–	**632,102**
Amounts due from credit institutions	87,656	–	**87,656**	203,155	–	**203,155**
Loans to customers	758,127	1,121,594	**1,879,721**	973,725	631,129	**1,604,854**
Investment securities	53,082	186,572	**239,654**	51,753	219,439	**271,192**
Total	**1,540,482**	**1,308,166**	**2,848,648**	**1,860,735**	**850,568**	**2,711,303**
Amounts due to credit institutions	261,479	88,248	**349,727**	239,371	82,634	**322,005**
Amounts due to customers, of which:	1,330,178	903,472	**2,233,650**	1,353,432	819,924	**2,173,356**
Current accounts	660,416	631,292	**1,291,708**	776,475	542,738	**1,319,213**
Time deposits (including certificates of deposit)	669,762	272,180	**941,942**	576,957	277,186	**854,143**
Lease liability	1,179	34,718	**35,897**	6,133	34,825	**40,958**
Subordinated debt	445	112,015	**112,460**	–	113,572	**113,572**
Total	**1,593,281**	**1,138,453**	**2,731,734**	**1,598,936**	**1,050,955**	**2,649,891**
Net	**(52,799)**	**169,713**	**116,914**	**261,799**	**(200,387)**	**61,412**

The maturity of the assets is based on their carrying amounts and upon earliest legally exercisable maturity as of 31 December of the year concerned. The maturity of liabilities is based on the earliest contractual maturity or first call, except for the current accounts. The portion of current accounts is presented in more than one-year maturity range due to their stability. Time deposits (including certificates of deposit) diversification by number and type of depositors and the past experience of the Group indicate that such accounts and deposits provide a long term and stable source of funding, and as a result they are allocated per expected time of the funds outflow in the gap analysis table on the basis of the statistical data accumulated by the Group during the previous periods and assumptions made regarding the "permanent" part of current account balances.

As of 31 December 2021, total amounts due to customers amounted to ₾ 2,233,650 (as of 31 December 2020: ₾ 2,173,356), of which current accounts comprised ₾ 1,291,708 (as of 31 December 2020: ₾ 1,319,213). The Bank conducts the analysis of the stability of the current account balances for the period of the preceding two years on a daily basis. These balances have not fallen below ₾ 631,292 (2020: ₾ 542,738) for the respective periods of the preceding 24 months. As such, it is reasonable to present these funds in amounts due to customers in more than one-year maturity range in the above schedule. If the contractual maturities of amounts due to customers were considered, the cumulative liquidity gap within one year as of 31 December 2021 would have been negative ₾ 684,091 (31 December 2020: negative ₾ 280,939).

As of 31 December 2021, the Bank had sufficient liquid collateral to additionally draw down ₾ 61,101 (2020: ₾ 112,959) from the NBG at immediate notice.

Market risk

Market risk is the risk that affect the overall performance of the financial market. The main types of market risks include interest rates risk, currency risk and their levels of volatility. Market risk arises mainly from trading activities. The Group is not exposed to market risk related to trading activities, since the Bank, in line with its risk appetite, is not engaged in trading activities. The market risk related to the banking activities encompasses the risk of loss on equity holdings, and the interest rate and foreign exchange risk stemming from banking intermediation activities. The Bank is exposed to interest rate and foreign exchange risks in its banking books.

(thousands of Georgian Lari)

25. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, due to re-pricing or maturity period characteristics of financial instruments. The Group is exposed to interest rate risk in case of material drop-in interest rates from competitors on loan products or rise in the cost of funds due to macro and Group specific events.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20.0% of the Bank's total regulatory capital. As at 31 December 2021, the Bank maintained an aggregate open currency position of 10.9% of regulatory capital (31 December 2020: 13.8%).

The Bank has approved Foreign Currency Risk Management Policy, which is intended to establish parameters for the Bank for the management of foreign currency exposures.

The process of foreign currency risk management includes, but is not limited to:

- Selection of adequate methodology for foreign currency risk identification and quantitative measurement;
- Daily monitoring of the open foreign currency position;
- Minimising currency risk through compliance with established limits;
- Revealing existing and anticipated negative tendencies of increased currency risk followed by the analysis of its causes and implications;
- Making recommendations on the currency risk management strategy;
- Determining the types and limits on instruments used in the foreign currency risk operations.

RAS sets limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by Treasury and ERM Division.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ₾, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Appreciation/ (depreciation) of the exchange rate of ₾ against the respective currency in % 2021*	*Effect on profit before tax 2021*	*Appreciation/ (depreciation) of the exchange rate of ₾ against the respective currency in % 2020*	*Effect on profit before tax 2020*
US Dollar	11.53%	(2,658)	6.34%	(2,077)
EUR	0.18%	(2,652)	0.18%	(16)

25. Risk management (continued)

Operational risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, or from external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks. Credit or market events such as default or fluctuations in value do not fall in the scope of operational risk. Compliance risk is included under operational risk. Compliance risk is the potential that the Bank may incur regulatory sanctions, financial loss and/or reputational damage arising from its failure to comply with applicable laws, rules and regulations. The operational risk does not cover the reputational and strategic risk.

The overall objective of the operational risk management is to identify risks arising from inadequate or failed internal processes, people and systems or from external events and mitigate them where feasible and to the extent economically reasonable.

The Bank has established the Operational Risk Management (ORM) framework and takes all possible steps to understand exposure of the business to the variety of operational risks arising from inadequate or failed internal processes, people and systems or from external events. The aim of the ORM framework is to enable the Bank to collect, assess, manage, and report operational risk efficiently and effectively.

The responsibilities of the Operational Risk Management Department, Department of Physical Security, Problem Loans and Court Disputes, Internal Audit and Business Owners within ORM framework are defined in the Operational Risk Management Policy.

In general, the Bank has no appetite towards the operational risks and aims to reduce the losses resulting from risk events to the point where the Bank is not materially impacted by them. The Bank has low appetite towards operational risks related to fraud, information security (including IT) and compliance breaches, therefore the Bank makes all efforts to eliminate these types of risks, majority of cases are directed to law enforcement bodies.

The Risk Event Database (RED) is developed and maintained to ensure that all incidents, losses and near misses are evidenced and treated appropriately. It provides the Bank with a technical tool to systematically collect realized. This information is used to refine the identification of risks and the appropriate approaches to managing them. The collection of the data and a corresponding analysis is carried out by the Operational Risk Management Department in a centralized manner. Operational risk events from the RED database with material impacts, direct and indirect losses are reported to the Management Board.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of respective business lines, with summaries submitted to the Audit Committee and Supervisory Board.

The key mitigation controls the Bank deploys stem from its Operational Risk Profile (ORP) and the RAS of the Supervisory Board. The Bank actively uses corporate insurance to mitigate its operational risks.

26. Fair value disclosures

Fair value measurement procedures

External Appraisers are involved for valuation of significant assets, such as properties. Involvement of external Appraisers is decided upon annually by the management after discussion with and approval by the Bank's audit committee. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuators are normally rotated every three years. The management decides, after discussions with the Group's external Appraisers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Group's external Valuators, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the management and the Group's external Valuators present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

26. Fair value disclosures (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's 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.

		Fair value measurement using			
At 31 December 2021	***Date of valuation***	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Assets measured at fair value					
Foreign exchange forwards and swaps	31 December 2021	–	1,093	–	**1,093**
Investment properties	31 December 2021	–	–	3,491	**3,491**
Property and equipment – land and buildings	31 December 2021	–	–	91,000	**91,000**
		–	**1,093**	**94,491**	**95,584**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2021	–	641,617	–	**641,617**
Amounts due from credit institutions	31 December 2021	–	87,656	–	**87,656**
Loans to customers	31 December 2021	–	1,879,721	–	**1,879,721**
Investment securities	31 December 2021	–	239,654	–	**239,654**
		–	**2,848,648**	**–**	**2,848,648**
Liabilities measured at fair value					
Foreign exchange forwards and swaps	31 December 2021	–	9,844	–	**9,844**
		–	**9,844**	**–**	**9,844**
Liabilities for which fair values are disclosed					
Amounts due to financial institutions	31 December 2021	–	349,727	–	**349,727**
Amounts due to customers	31 December 2021	–	2,233,650	–	**2,233,650**
Lease liability	31 December 2021	–	35,897	–	**35,897**
Subordinated debt	31 December 2021	–	112,460	–	**112,460**
		–	**2,731,734**	**–**	**2,731,734**

26. Fair value disclosures (continued)

Fair value hierarchy (continued)

At 31 December 2020	*Date of valuation*	*Fair value measurement using* (Level 1)	(Level 2)	(Level 3)	*Total*
Assets measured at fair value					
Foreign exchange forwards and swaps	31 December 2020	–	2,297	–	**2,297**
Investment properties	31 December 2020	–	–	3,267	**3,267**
Property and equipment – land and buildings	31 December 2020	–	–	91,987	**91,987**
		–	**2,297**	**95,254**	**97,551**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2020	–	632,102	–	**632,102**
Amounts due from credit institutions	31 December 2020	–	203,155	–	**203,155**
Loans to customers	31 December 2020	–	1,604,854	–	**1,604,854**
Investment securities	31 December 2020	–	271,192	–	**271,192**
		–	**2,711,303**	**–**	**2,711,303**
Liabilities measured at fair value					
Foreign exchange forwards and swaps	31 December 2020	–	9,744	–	**9,744**
		–	**9,744**	**–**	**9,744**
Liabilities for which fair values are disclosed					
Amounts due to financial institutions	31 December 2020	–	322,005	–	**322,005**
Amounts due to customers	31 December 2020	–	2,173,356	–	**2,173,356**
Lease liability	31 December 2020	–	40,958	–	**40,958**
Subordinated debt	31 December 2020	–	113,572	–	**113,572**
		–	**2,649,891**	**–**	**2,649,891**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position and their fair value is materially different from their carrying amount. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2021	*Fair value 2021*	*Unrecognised gain/(loss) 2021*	*Carrying value 2020*	*Fair value 2020*	*Unrecognised gain/(loss) 2020*
Financial assets and liabilities						
Loans to customers	1,879,721	1,855,245	(24,476)	1,604,854	1,608,041	3,187
Investment securities	239,654	239,821	167	271,192	270,694	(498)
Amounts due to financial institutions	349,727	346,049	3,678	322,005	316,983	5,022
Amounts due to customers	2,233,650	2,221,155	12,495	2,173,356	2,175,050	(1,694)
Lease liability	35,897	35,971	(74)	40,958	47,730	(6,772)
Amounts due from credit institutions	87,656	87,656	–	203,155	203,155	–
Subordinated debt	112,460	113,319	(859)	113,572	122,361	(8,789)
Total unrecognised change in unrealised fair value			**(9,069)**			**(9,544)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the consolidated financial statements and those items that are not measured at fair value in the consolidated statement of financial position but whose fair value are disclosed.

Assets and liabilities for which fair value approximates carrying value

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

26. Fair value disclosures (continued)

Derivatives

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

Financial assets and financial liabilities carried at amortised cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date, as such they fall under Level 2 fair value hierarchy. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the NBG and credit institutions and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Investment properties and buildings

There are three main approaches to valuation of real property:

Market approach

Establishes limits on the market value for the real estate by examining the prices commonly paid for properties that compete with the subject property for buyers. Sales are investigated to ensure that the parties to the transaction were adequately motivated. Sale prices reflecting motivation other than that of a typical market participant, i.e. transactions of special purchasers who are willing to pay a premium for a particular property, should be eliminated. The method involves analysing units of comparison such as a price per square metre of gross building area. Adjustments are made to the sales/listing for differences in location, size, age and condition, financing and various other factors which may have any influence on the value.

In the analysis of the market value of appraised properties by the sales comparison (market data) approach, it is utilised the sales/listing measured to the best available, most recent and overall similar sales/listing available as of the report date.

Information on the comparable sales and listing is obtained from brokerage companies, agents and brokers, as well as public information, including commercial broker listings on websites and published data. Then such information is further confirmed with owners and/or principles or brokers involved in the listed transactions.

Cost approach

Establishes the value of the real estate by estimating the cost of acquiring the land and building a new property or renovating an old property for equivalent utilisation purposes with no undue cost due to delay. An estimate of entrepreneurial incentive or developer's profit/loss is commonly added to the land and construction costs. For mature properties, the cost approach is used to estimate the depreciation cost, including items of physical deterioration and functional obsolescence.

The main approach of the cost replacement method reflects the idea that one will not pay for the given property more than he/she would pay for the construction of that property.

The cost approach involves the following steps:

- Estimate land value;
- Estimate reproduction or replacement cost of the improvements;
- Estimate accrued depreciation from all sources (physical deterioration, functional obsolescence, external and economic obsolescence);
- Deduct accrued depreciation from the reproduction or replacement cost to arrive at the depreciated improvement cost;
- Estimate equipment cost and deduct depreciation;
- Add the depreciated improvement cost to depreciated equipment cost and to the land value to arrive at a total property value indication.

26. Fair value disclosures (continued)

Investment properties and buildings (continued)

Income capitalisation approach

The income generation methodology is based on the hypothetical incomes generated through the use of the property being valued. The estimation of the real estate market value is based on the capitalisation coefficient which is calculated based on the long-term rate of the alternative investment methodology.

Discount cash flow (DCF)

The fair value of completed investment properties is determined using a discounted cash flow (DCF). Based on the actual and projected market demand, types of goods/services to be produced/provided, pricing policy and expected competitive environment in the market, the strategic financial projections for the business is developed. Using DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property.

In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of investment properties in Level 3 assets and liabilities which are recorded at fair value. For the reconciliation of property and equipment – buildings refer to *Note 11*:

	At 1 January 2021	*Total gain recorded in profit or loss*	*At 31 December 2021*
Assets			
Investment properties	3,267	**224**	3,491
	3,267	**224**	**3,491**

	At 1 January 2020	*Total gain recorded in profit or loss*	*At 31 December 2020*
Assets			
Investment properties	2,619	**648**	3,267
	2,619	**648**	**3,267**

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy:

As of 31 December 2021	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Land and buildings – head office	50,302	Income Capitalisation Approach (DCF)	10% increase/decrease of rent price 10% increase/decrease of Occupancy rate	(10.00%) up to 10.00%
Land and buildings	40,698	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(5.46%) up to 15.54%
Investment properties – office building	2,113	Income Approach	10% increase/decrease of rent price 10% increase/decrease of Occupancy rate	(9.97%) up to 9.97% (12.02%) up to 12.02%
Investment properties – residential house	81	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(11.54%) up to 11.54%
Investment properties – commercial building	1,297	Cost approach	Price volatility/adjustment: 10% increase/decrease of land value 10% increase/decrease of replacement cost	(6.21%) up to 5.97% (3.82%) up to 3.82%

26. Fair value disclosures (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

As of 31 December 2020	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Land and buildings – head office	50,629	Income Capitalisation Approach (DCF)	10% increase/decrease of rent price 10% increase/decrease of Occupancy rate	(10.00%) up to 10.00%
Land and buildings	41,358	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(5.46%) up to 15.54%
Investment properties – office building	2,067	Market approach	Price volatility/adjustment: 10% increase/decrease of market prices	(10.00%) up to 10.00%
Investment properties – residential house	112	Market approach	Price volatility/adjustment: 10% increase/decrease of market prices	(10.00%) up to 10.00%
Investment properties – commercial building	1,088	Market approach	Price volatility/adjustment: 10% increase/decrease of market prices	(10.00%) up to 10.00%

27. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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.

The outstanding balances at the period end of and related income and expense arising from related party transactions are as follows:

	2021			*2020*		
	Shareholder	*Entities under common control*	*Key management personnel*	*Shareholder*	*Entities under common control*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**10,573**	**491**	**–**	**10,917**	**10**
Loans issued during the year	15,498	10,038	622	–	10,827	491
Loan repayments during the year	(7,863)	(13,229)	(216)	–	(11,171)	(10)
Loans outstanding at 31 December, gross	**7,635**	**7,382**	**897**	**–**	**10,573**	**491**
Less: allowance for impairment at 31 December	(462)	(89)	(8)	–	(434)	(10)
Loans outstanding at 31 December, net	**7,173**	**7,293**	**889**	**–**	**10,139**	**481**
Unused credit lines	–	1,531	10	–	3,497	10
Interest income on loans	522	1,555	60	–	647	120
Deposits* at 1 January	**–**	**13,126**	**20**	**–**	**–**	**–**
Deposits received during the year	–	14	41	1,513	400,446	28,319
Deposits repaid during the year	–	–	(1)	(1,513)	(387,320)	(28,299)
Other movements**	–	(735)	(20)	–	–	–
Deposits at 31 December	**–**	**12,405**	**40**	**–**	**13,126**	**20**
Current accounts at 31 December	**71**	**31,756**	**2,500**	**285**	**298,402**	**3,807**
Interest expense on deposits and current accounts	3	1,346	40	9	7,155	160
Interest expense on subordinated debt	–	–	–	–	–	–
Fee and commission income	81	689	3	1	901	5
Other operating expenses	–	–	–	–	–	–

* *Deposits include Time Deposits and CDs as well as Savings Account.*

** *Net gains/(losses) from foreign currencies.*

27. Related party disclosures (continued)

Entities under common control comprises of organisations in which shareholders of the Group exercise control which represent related parties to the Group.

The number of key management personnel during the year ended 31 December 2021 were 10 (2020: 12) and their compensation comprised the following:

	2021	*2020*
Salaries, bonuses and other short-term benefits	3,334	7,261
Total key personnel compensation	**3,334**	**7,261**

28. Capital management

The Bank's capital management objectives consist of ensuring its solvency at all times, complying with the supervisory and internal capital requirements, and maintaining a prudent capital cushion in order to protect the Bank from known (and, to some extent, the unknown) risks.

The Bank's management of its total capital is based on the Internal Capital Adequacy Assessment Process (ICAAP), which represents its main capital management tool. Besides, as an additional capital management tool, the Bank maintains Recovery Plan which includes regulatory capital alert thresholds and recovery strategies.

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

NBG Basel III Capital adequacy ratio

On 18 December 2017, the NBG published and approved amendments in capital adequacy regulation (Decree N100/04), according to which the minimum capital requirement ratios have been revised whereas incorporated Pillar I model and set Capital Conservation, Systemic Risk and Countercyclical buffers (Pillar I Buffers).

As of 31 December 2021, Pillar 1 minimum capital requirements on Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Total Capital ratios were set at 4.50%, 6.00% and 8.00% respectively in addition to which the Bank had to maintain Combined buffers and Pillar II requirements.

Systemic Risk buffer is designed as a build-up manner and is allocated over upcoming three years. Effective from 31 December 2018, first year is set at 0.6%, and increases every year by 0.3% throughout 31 December 2021. Therefore, as of 31 December 2021, Systemic Risk buffer was 1.5% and as of 31 December 2020, it was 1.2%. Capital Conservation and Countercyclical buffers was set at 2.5% and 0.00%, respectively. Any adjustment of Pillar I and Combined Buffers is at NBG's discretion.

From March 2020, due to COVID-19 pandemic, the capital requirements of the commercial banks have been lowered, resulting in the elimination of the capital conservation buffer (2.5% of the risk weighted assets), the change was valid in 2021 as well.

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

From March 2020, updated supervisory plan introduced by NBG included portion of pillar 2 requirements relieves: Currency induced credit risk buffer (CICR) reduced by 2/3 indefinitely, the phase-in of additional Credit portfolio concentration risk buffer (HHI) and Net Grape buffer requirements on Common Equity Tier 1 and Tier 1 Capital, planned at the end of March 2020, were postponed by one year. The old requirements were restored from March 2021 as CET1 -30%, Tier1-40%. Therefore, for Total Regulatory Capital, as of 31 December 2021, the Bank had to maintain Pillar 2 buffer 4.45% (comparing to 3.91% of 31 December 2020). For Tier 1 Capital and CET 1 Capital, Net Grape and Credit Portfolio Concentration Risk buffers became 40% and 30% of total, respectively, and CICR – 75% and 56%, respectively.

28. Capital management (continued)

NBG Basel III Capital adequacy ratio (continued)

As a result of lowered capital requirements, As of 31 December 2021, under total Basel III requirements the Bank was required to maintain a minimum Total Capital adequacy ratio of 13.95% of the risk-weighted exposures (RWE), minimum Tier 1 Capital adequacy ratio of 9.40% of the RWE and Common Equity Tier 1 Capital adequacy ratio of 7.42% of the RWE computed based on the Bank's stand-alone financial statements prepared in accordance with the NBG requirements. As of 31 December 2021, the Bank maintained minimum capital requirements in accordance to capital adequacy regulation (approved and published on 28 October 2013 by the NBG (Decree N100/04) and adjusted for NBG's discretionary items, became effective on 30 June 2014). As of 31 December 2021, Total Capital adequacy ratio, Tier 1 Capital adequacy ratio and Common Equity Tier 1 Capital adequacy ratios were 14.75%, 10.54% and 10.34%, respectively.

To support larization, in December 2021, the National Bank of Georgia made the following decision: Currency Induced Credit Risk Buffer (CICR) will be recalibrated and it will be depend on the dollarization level of commercial banks' credit portfolio. In the transition phase, this rule of calculating CICR will not cause a material change in capital requirement on the system level, however, buffer requirement will be adjusted for some banks based on their dollarization level. The change will be activated on 1 January 2022

The Bank's capital adequacy ratios calculated in accordance with NBG Basel II/III requirement were as follows:

	2021	*2020*
Common Equity Tier 1 capital	**239,972**	**196,387**
Additional Tier 1 capital	4,565	4,565
Tier 1 capital	**244,537**	**200,952**
Tier 2 capital	97,705	105,950
Total regulatory capital	**342,242**	**306,902**
Risk-weighted exposures	**2,319,960**	**2,227,010**
Common Equity Tier 1 capital ratio	10.34%	8.82%
Tier 1 capital ratio	10.54%	9.02%
Total regulatory capital ratio	14.75%	13.78%

29. Events after the reporting period

War in Ukraine

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant depreciation of the Russian Ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a negative impact on the Georgian economy.

Liberty Bank conducted stress test after Russia-Ukraine war had started. The stress test was considering expected effects of possible negative expectations of the war on the bank's credit portfolio and assets quality.

Some of the significant assumptions which Bank considered where following:

- Russian exclusion from SWIFT and global supply chain disruption;
- Drop of Gross Domestic Product of Georgia;
- Depreciation of Gel/USD exchange rate;
- Fall of real estate prices, which causes LGD depreciation for the secured loans with real estate;
- Remarkable decrement of remittances from Russia, Ukraine and Belarus;
- Suspension of exporting products of corporate companies, which depend on Russian/Ukrainian Markets;
- Reduction in the revenues and turnovers of the companies related to Tourism/Hoteling/Procyclic industries.

(thousands of Georgian Lari)

29. Events after the reporting period (continued)

War in Ukraine (continued)

Bank has analysed approximately gross loan portfolio in amount of GEL 161 million (Portfolio at risk), present within following sectors: 22,6 million – retail loans, 139 million- corporate loans.

As the war is still waging, it is impossible to reliably assess the impact this may have on the Bank's business as there is uncertainty over the magnitude of the impact on the economy in general. The Bank's management is monitoring the economic situation in the current environment. However, according to the stress-test results, expected loss does not pose a threat to the quality of the bank's portfolio, capitalization and liquidity positions. The Bank considers the war in Ukraine to be a non-adjusting post balance sheet event.

War affected the activities of Russian enterprises in various sectors of the economy and countries including VTB Bank Georgia. In order to ensure the maximum protection of the interests of its depositors, VTB Bank sold small and medium business (SMB) portfolio to Liberty Bank JSC. According to the agreement, amounts due to customers of SMB and SMB loan portfolio with carrying values at the date of sale GEL 303,853 and GEL 317,162, respectively, and were transferred to Liberty Bank by the end of March 2022. Liberty Bank provided detailed information to the customers about the upcoming transfer. The work on customers' migration has commenced in March 2022. Liberty Bank will serve SMB depositors and borrowers of the Bank in their branches.

In May 2022, there was change in management of the Bank. Chief Executive officer ("CEO") Vasil Khodeli stepped down, and new CEO is under appointment. As od date of this financial statements new CEO is not fully ahead for the role.