JSC PASHA Bank Georgia

Financial statements

Year ended 31 December 2022
together with independent auditor's report

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EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Shareholder and the Supervisory Board of JSC PASHA Bank Georgia

Opinion

We have audited the financial statements of JSC PASHA Bank Georgia (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Emphasis of matter

We draw attention to Note 24 to the financial statements, which describes a significant concentration of the Bank's transactions with related parties. Our opinion is not modified in respect of this matter.

Other information included in the Bank's 2022 Management Report

Other information consists of the information included in the Bank's 2022 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2022 Management Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Audit committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ana Kusrashvili

On behalf of EY LLC

22 February 2023

Tbilisi, Georgia

Statement of financial position

As at 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	2022	2021
Assets			
Cash and cash equivalents	5	62,542	42,380
Amounts due from credit institutions	6	46,927	50,662
Loans to customers	7	350,885	294,973
Investment securities	8	43,861	42,059
Property and equipment	9	2,420	3,827
Right of use assets	10	3,766	5,412
Intangible assets	11	5,255	4,863
Other assets	12	2,854	1,819
Total assets		**518,510**	**445,995**
Liabilities			
Amounts due to credit institutions	13	106,687	123,135
Amounts due to customers	14	272,031	201,987
Provisions	18	356	240
Lease liabilities	10	3,772	6,147
Subordinated debt	15	26,559	30,222
Other liabilities	12	6,290	5,186
Total liabilities		**415,695**	**366,917**
Equity			
Share capital	17	129,000	103,000
Additional paid-in capital	17	1,155	1,155
Accumulated deficit		(27,340)	(25,077)
Total equity		**102,815**	**79,078**
Total equity and liabilities		**518,510**	**445,995**

Signed on behalf of the Board of Directors of the Bank on 22 February 2023:

Nikoloz Shurgaia Chairman of the Board of Directors

JSC PASHA BANK GEORGIA 404433671

Selim Berent Chief Financial Officer, Member of the Board of Directors

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	*2022*	*2021*
Interest income calculated using effective interest rate			
Loans to customers		36,890	28,931
Investment securities		4,664	4,296
Amounts due from credit institutions		1,747	603
		43,301	**33,830**
Interest expense			
Amounts due to customers		(8,728)	(6,737)
Amounts due to credit institutions		(6,469)	(6,705)
Subordinated debt		(1,478)	(1,633)
Lease liabilities		(228)	(405)
		(16,903)	**(15,480)**
Net interest income		**26,398**	**18,350**
Credit (loss)/reversal on interest bearing assets	5,6,7,8,18	(4,667)	3,078
Net interest income after impairment losses		**21,731**	**21,428**
Net gains/(losses) from foreign currencies			
- dealing		10,916	9,946
- translation differences		(1,468)	(7,483)
Fee and commission income, net:	19	1,028	56
- fee and commission income		3,042	1,716
- fee and commission expense		(2,014)	(1,660)
Net gain/(loss) on modification of financial assets measured at amortised cost	7	202	(55)
Other operating income		103	604
Non-interest income		**10,781**	**3,068**
Personnel expenses	20	(19,450)	(15,391)
General and administrative expenses	20	(9,601)	(6,541)
Depreciation and amortisation	9, 10, 11	(5,544)	(5,815)
Provisions		(80)	(39)
Other operating expenses		(100)	(942)
Non-interest expenses		**(34,775)**	**(28,728)**
Loss before income tax		**(2,263)**	**(4,232)**
Income tax benefit/(expense)	16	–	226
Net loss for the year		**(2,263)**	**(4,006)**
Other comprehensive income		–	–
Total comprehensive loss for the year		**(2,263)**	**(4,006)**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Share capital	*Additional paid-in capital*	*Accumulated deficit*	*Total equity*
1 January 2021	**103,000**	**1,155**	**(21,071)**	**83,084**
Total comprehensive loss or the year	–	–	(4,006)	**(4,006)**
31 December 2021	**103,000**	**1,155**	**(25,077)**	**79,078**
Total comprehensive loss for the year	–	–	**(2,263)**	**(2,263)**
Issue of share capital (Note 17)	26,000	–	–	**26,000**
31 December 2022	**129,000**	**1,155**	**(27,340)**	**102,815**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2022

(Amounts in tables are in thousands of Georgian lari)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Interest received		43,052	36,784
Interest paid		(21,222)	(12,402)
Fees and commissions received		3,024	1,716
Fees and commissions paid		(2,043)	(1,685)
Realised gains less losses from dealing in foreign currencies		10,916	9,946
Personnel expenses paid		(18,140)	(15,411)
General and administrative expenses paid		(9,677)	(7,399)
Other income received		6	3
Cash flows from operating activities before changes in operating assets and liabilities		**5,916**	**11,552**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(927)	(6,562)
Loans to customers		(88,005)	8,134
Other assets		(523)	(236)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		654	(6,422)
Amounts due to customers		97,194	1,730
Other liabilities		(2,054)	(129)
Net cash from operating activities		**12,255**	**8,067**
Cash flows from investing activities			
Purchase of investment securities	8	(20,449)	(3,100)
Proceeds from redemption of investment securities	8	16,529	6,500
Purchase of property and equipment		(519)	(481)
Proceeds from sale of property and equipment		72	466
Purchase of intangible assets		(2,078)	(1,964)
Net cash (used in) / from investing activities		**(6,445)**	**1,421**
Cash flows from financing activities			
Principal repayments of lease liability		(2,071)	(2,891)
Proceeds from issue of share capital	17	26,000	-
Net cash from / (used in) financing activities		**23,929**	**(2,891)**
Effect of exchange rates changes on cash and cash equivalents		(9,575)	(3,360)
Effect of expected credit losses on cash and cash equivalents		(2)	25
Net increase in cash and cash equivalents		**20,162**	**3,262**
Cash and cash equivalents, beginning	5	42,380	39,118
Cash and cash equivalents, ending	5	**62,542**	**42,380**

The accompanying selected explanatory notes on pages 5 to 45 are an integral part of these financial statements.

(Amounts in tables are in thousands of Georgian lari)

1. Principal activities

JSC PASHA Bank Georgia (the "Bank") was formed on 17 December 2012 as a joint stock company under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 17 January 2013 (Identification code: 404433671).

The Bank accepts deposits and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its commercial customers. The Bank continues its expansion into retail market under the Re|Bank brand name, based on strategic initiatives approved by the Bank's shareholders.

Starting from 2017 the Bank is a member of the deposit insurance system. The system operates under the Law of Georgia on Deposit Insurance System and insures all types of deposits of resident and non-resident individuals up to GEL 5,000, with certain exceptions.

The Bank has four service offices in Georgia as of 31 December 2022. The Bank's registered legal address is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

As at 31 December 2022 and 2021, the Bank's 100% owner was OJSC PASHA Bank (the "Parent"), the Republic of Azerbaijan. As at 31 December 2022 and 2021 the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Bank.

These financial statements have not yet been approved by the Parent on the general meeting of shareholder of the Bank. The shareholder has the power and authority to amend the financial statements after the issuance.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These financial statements are presented in thousands of Georgian lari ("GEL"), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments to standards were applied for the first time in the 2022 year, resulting in consequential changes to the accounting policies and other note disclosures:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

The amendments effective since 1 January 2022 do not have an impact on the financial statements of the Bank.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 22. 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 Bank. 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. 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 Bank 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 categorized 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.

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative portfolio at FVPL. The Bank 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 in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities

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

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

The Bank'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 Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank 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 Bank 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 Bank 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.

Letters of credit and undrawn loan commitments

The Bank issues letters of credit and loan commitments. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2022.

Renegotiated loans

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

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

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the statement of profit or loss and net gain/(loss) on modification of financial assets measured at amortised cost, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Asset that has been classified as credit-impaired as the result of modification, can be recorded as Stage 2 or Stage 3 if certain criteria are met according to the Banks approved methodology.

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 Bank 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 Bank 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 Bank 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 Bank’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 Bank could be required to repay.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Write-off

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

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.

Cash and cash equivalents

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

Mandatory reserve deposit with the NBG

Mandatory reserve deposits with the NBG are carried at amortised cost and represent interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory reserve is included in amounts due from credit institutions.

Leases

Bank as a lessee

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

Right-of-use assets

The Bank 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 Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

In calculating the present value of lease payments, the Bank 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.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Leases (continued)

Short-term leases and leases of low-value assets

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

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

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

Offsetting of financial instruments

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

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

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

Taxation

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

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 values 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.

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

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

Property and equipment

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

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

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Years
Furniture and fixtures	4
Computers and equipment	4
Motor vehicles	4
Other equipment	5
Leasehold improvements	1-5 years or lease term, if lower

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 capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. 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 either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Amounts due to/from credit institutions

Amounts due to credit institutions include deposits and loans placed by commercial banks and the Ministry of Finance. The Bank considers Ministry of Finance as a credit institution, because it provides refinancing facility similar to that of the National Bank of Georgia and long-term deposits as a liquidity support measure.

Amounts due from credit institutions include amounts due only from the NBG and commercial banks. The Bank considers non-banking credit institutions as customers and loans to non-banking credit organizations are included in loans to customers.

Provisions

Provisions are recognised when the Bank 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.

Contingencies

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

Share capital

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

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate.

Fee and commission income

The Bank earns fee and commission income from several types 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. These fees include commission income on guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income earned at a point in time

Fees arising from settlement and cash operations are recognized upon completion of the underlying transactions. Each cash operation and settlement 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 where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to 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.

Foreign currency translation

The financial statements are presented in Georgian lari ("GEL"), which is the Bank's 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 transactions are recognised in the 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 official GEL exchange rates at 31 December 2022 and 2021 were 2.7020 GEL and 3.0976 GEL to 1 USD, respectively, 2.8844 GEL and 3.5040 GEL to 1 EUR, respectively and 1.5924 GEL and 1.8222 GEL to 1 AZN, respectively.

(Amounts in tables are in thousands of Georgian lari)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- ► A specific adaptation for contracts with direct participation features (the variable fee approach)
- ► A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ► What is meant by a right to defer settlement;
- ► That a right to defer must exist at the end of the reporting period;
- ► That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ► That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have an impact on the Bank.

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

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

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

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

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

(Amounts in tables are in thousands of Georgian lari)

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Impairment losses on financial assets

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank'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 LTECL basis;
- 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 GDP growth and inflation, 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.

During 2022 the Bank approved new methodology which included updates related to PD and LGD calculation. The amount of change in estimate caused by the updates was deemed as impracticable to be estimated by the Bank. The amount of allowance for loans to customers, investment securities and credit related commitments recognized in the statement of financial position at 31 December 2022 was GEL 16,824 thousand (2021: GEL 13,864 thousand), GEL 338 thousand (2021: GEL 342 thousand) and GEL 356 thousand (2021: GEL 195 thousand) respectively. Refer to Note 7, Note 8 and Note 18.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 22.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. More details are provided in Note 10.

(Amounts in tables are in thousands of Georgian lari)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	*2021*
Cash on hand	4,328	4,747
Current accounts with the NBG	287	168
Current accounts with other credit institutions	30,793	12,300
Time deposits with credit institutions up to 90 days	27,139	25,168
Less: allowance for impairment	(5)	(3)
Cash and cash equivalents	**62,542**	**42,380**

As at 31 December 2022, current accounts and time deposit accounts with credit institutions denominated in GEL, USD and EUR represent 47.14%%, 47.01% and 4.86% of total current and time deposit accounts respectively (31 December 2021: GEL 40.41%, USD 26.62%, EUR 30.33%).

All balances of cash equivalents are held at amortized cost and are allocated to Stage 1.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2022	*2021*
Mandatory reserve with the NBG	43,455	47,563
Time deposits for more than 90 days	3,473	3,103
Less: allowance for impairment	(1)	(4)
Amounts due from credit institutions	**46,927**	**50,662**

Credit institutions are required to maintain cash deposits (mandatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by regulation.

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2022 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2022	**3,103**	**(4)**
New assets originated	6,253	(6)
Assets repaid	(6,085)	1
Foreign exchange and other movements	202	8
At 31 December 2022	**3,473**	**(1)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to time deposits for more than 90 days during the year ended 31 December 2021 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2021	**–**	**–**
New assets originated	3,087	(6)
Assets repaid	–	–
Foreign exchange and other movements	16	2
At 31 December 2021	**3,103**	**(4)**

All balances of amounts due from credit institutions are held at amortized cost and are allocated to Stage 1.

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers

Loans to customers comprise:

	2022	*2021*
Corporate	190,703	154,437
Commercial	122,383	128,918
Consumer	54,623	25,482
Loans to customers	**367,709**	**308,837**
Less − allowance for impairment	(16,824)	(13,864)
Loans to customers	**350,885**	**294,973**

Commercial loans include loans to medium sized companies.

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

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**114,192**	**40,245**	**–**	**154,437**
New assets originated	243,759	–	–	**243,759**
Assets repaid	(169,659)	(23,751)	–	**(193,410)**
Transfers to Stage 1	32,738	(32,738)	–	**–**
Transfers to Stage 2	(26,905)	26,905	–	**–**
Transfers to Stage 3	–	(189)	189	**–**
Foreign exchange and net other movements	(10,320)	(3,736)	(27)	**(14,083)**
At 31 December 2022	**183,805**	**6,736**	**162**	**190,703**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,376)**	**(823)**	**–**	**(2,199)**
New assets originated	(3,602)	–	–	**(3,602)**
Assets repaid	1,098	147	–	**1,245**
Transfers to Stage 1	(157)	157	–	**–**
Transfers to Stage 2	198	(198)	–	**–**
Transfers to Stage 3	–	3	(3)	**–**
Foreign exchange and net other movements	2,104	676	(159)	**2,621**
At 31 December 2022	**(1,735)**	**(38)**	**(162)**	**(1,935)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**67,770**	**45,516**	**15,632**	**128,918**
New assets originated	71,282	291	–	**71,573**
Assets repaid	(50,336)	(9,249)	(4,279)	**(63,864)**
Transfers to Stage 1	4,604	(4,604)	–	**–**
Transfers to Stage 2	(13,233)	15,106	(1,873)	**–**
Transfers to Stage 3	–	(22,684)	22,684	**–**
Unwinding of discount	–	–	940	**940**
Foreign exchange and net other movements	(8,135)	(3,866)	(3,183)	**(15,184)**
At 31 December 2022	**71,952**	**20,510**	**29,921**	**122,383**

Commercial loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,075)**	**(3,295)**	**(5,373)**	**(9,743)**
New assets originated	(1,096)	(21)	–	**(1,117)**
Assets repaid	322	914	1,857	**3,093**
Transfers to Stage 1	(150)	150	–	**–**
Transfers to Stage 2	329	(712)	383	**–**
Transfers to Stage 3	–	3,435	(3,435)	**–**
Unwinding of discount	–	–	940	**940**
Foreign exchange and net other movements	1,178	(1,177)	(2,601)	**(2,600)**
At 31 December 2022	**(492)**	**(706)**	**(8,229)**	**(9,427)**

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

Consumer loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**24,425**	**319**	**738**	**25,482**
New assets originated	88,162	–	–	**88,162**
Assets repaid	(57,094)	(15)	(19)	**(57,128)**
Transfers to Stage 1	1,347	(1,065)	(282)	**–**
Transfers to Stage 2	(5,773)	5,799	(26)	**–**
Transfers to Stage 3	–	(3,933)	3,933	**–**
Amounts written off	–	–	(1,640)	**(1,640)**
Foreign exchange and net other movements	(305)	46	6	**(253)**
At 31 December 2022	**50,762**	**1,151**	**2,710**	**54,623**

Consumer loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,136)**	**(48)**	**(738)**	**(1,922)**
New assets originated	(3,130)	–	–	**(3,130)**
Assets repaid	1,829	11	73	**1,913**
Transfers to Stage 1	(113)	98	15	**–**
Transfers to Stage 2	731	(735)	4	**–**
Transfers to Stage 3	–	960	(960)	**–**
Amounts written off	–	–	1,640	**1,640**
Recoveries	–	–	(89)	**(89)**
Foreign exchange and net other movements	(745)	(474)	(2,655)	**(3,874)**
At 31 December 2022	**(2,564)**	**(188)**	**(2,710)**	**(5,462)**

An analysis of changes gross carrying value in relation to loans to customers during the year ended 31 December 2021 is as follows:

Corporate loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**122,244**	**37,390**	**–**	**159,634**
New assets originated	116,922	5,104	–	**122,026**
Assets repaid	(109,790)	(10,408)	–	**(120,198)**
Transfers to Stage 1	23,980	(23,980)	–	**–**
Transfers to Stage 2	(35,955)	35,955	–	**–**
Foreign exchange and net other movements	(3,209)	(3,816)	–	**(7,025)**
At 31 December 2021	**114,192**	**40,245**	**–**	**154,437**

Corporate loans at amortized cost, allowance for ECL	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(1,298)**	**(3,622)**	**–**	**(4,920)**
New assets originated	(1,368)	(226)	–	**(1,594)**
Assets repaid	452	795	–	**1,247**
Transfers to Stage 1	(111)	111	–	**–**
Transfers to Stage 2	196	(196)	–	**–**
Foreign exchange and net other movements	753	2,315	–	**3,068**
At 31 December 2021	**(1,376)**	**(823)**	**–**	**(2,199)**

Commercial loans at amortized cost, gross	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**120,487**	**43,327**	**4,204**	**168,018**
New assets originated	53,937	32,414	1,210	**87,561**
Assets repaid	(76,710)	(33,224)	(3,378)	**(113,312)**
Transfers to Stage 1	24,663	(20,754)	(3,909)	**–**
Transfers to Stage 2	(38,242)	59,191	(20,949)	**–**
Transfers to Stage 3	(9,706)	(28,856)	38,562	**–**
Foreign exchange and net other movements	(6,659)	(6,582)	(108)	**(13,349)**
At 31 December 2021	**67,770**	**45,516**	**15,632**	**128,918**

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

Commercial loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**(3,189)**	**(7,210)**	**(1,560)**	**(11,959)**
New assets originated	(1,315)	(1,947)	(570)	**(3,832)**
Assets repaid	1,232	4,078	1,478	**6,788**
Transfers to Stage 1	(685)	588	97	**–**
Transfers to Stage 2	2,391	(4,112)	1,721	**–**
Transfers to Stage 3	572	3,252	(3,824)	**–**
Foreign exchange and net other movements	(81)	2,056	(2,715)	**(740)**
At 31 December 2021	**(1,075)**	**(3,295)**	**(5,373)**	**(9,743)**

Consumer loans at amortized cost, gross	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2021	**9,163**	**783**	**9**	**9,955**
New assets originated	39,793	68	22	**39,883**
Assets repaid	(23,346)	(32)	(1)	**(23,379)**
Transfers to Stage 1	570	(483)	(87)	**–**
Transfers to Stage 2	(1,749)	1,763	(14)	**–**
Transfers to Stage 3	–	(1,645)	1,645	**–**
Amounts written off	–	–	(840)	**(840)**
Foreign exchange and net other movements	(6)	(135)	4	**(137)**
At 31 December 2021	**24,425**	**319**	**738**	**25,482**

Consumer loans at amortized cost, allowance for ECL	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2021	**(484)**	**(117)**	**(9)**	**(610)**
New assets originated	(2,046)	(18)	(22)	**(2,086)**
Assets repaid	1,253	9	1	**1,263**
Transfers to Stage 1	(79)	(8)	87	**–**
Transfers to Stage 2	144	(158)	14	**–**
Transfers to Stage 3	–	726	(726)	**–**
Amounts written off	–	–	840	**840**
Foreign exchange and net other movements	76	(482)	(923)	**(1,329)**
At 31 December 2021	**(1,136)**	**(48)**	**(738)**	**(1,922)**

Modified and restructured loans

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

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

During 2022, the Bank has modified the terms and conditions of certain commercial loans. The Bank considered these modifications to be non-substantial.

The table below includes assets that were modified during the period, with the related modification gain or loss recognized by the Bank.

Loans modified during the period	***2022***	***2021***
Amortised cost before modification	1,726	56,105
Net modification gain/ (loss)	–	(55)

GEL 202 thousand of modification gain included in the statement of comprehensive income represents the effect of repaid loans which were modified in previous years.

(Amounts in tables are in thousands of Georgian lari)

7. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The types of collateral normally obtained are charges over real estate properties, also cash covers and guarantees, provided by borrowers or third parties, including the Parent.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2022, the Bank had a concentration of loans due from three major groups of related borrowers in the total amount of GEL 54,677 thousand which represented 14.87% of the total gross loan portfolio (31 December 2021: GEL 53,514 thousands, 17.33% of the gross loan portfolio). Allowance of GEL 445 thousand was recognised against these loans (31 December 2021: GEL 756 thousand).

Loans are made within Georgia in the following industry sectors:

	2022	***2021***
Trade and services	118,152	145,424
Non-banking credit organizations	71,420	28,878
Individuals	54,623	25,482
Real estate management	49,314	56,038
Energy	44,194	18,565
Construction	19,546	29,792
Agro	10,370	4,359
Other	90	299
	367,709	**308,837**

8. Investment securities

As at 31 December 2022, investment securities comprised of bonds of financial institutions and other companies and Treasury bonds of the Ministry of Finance of Georgia:

Investment securities comprise:

	2022	***2021***
Debt securities at amortised cost		
Corporate bonds	20,951	22,875
Bonds of Financial institutions	17,779	14,057
Treasury bonds of the Ministry of Finance of Georgia	5,469	5,469
	44,199	**42,401**
Less: allowance for impairment	(338)	(342)
Total debt securities	**43,861**	**42,059**

As at 31 December 2022, GEL 16,142 thousand worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia (31 December 2021: GEL 20,102 thousand) (Note 13).

(Amounts in tables are in thousands of Georgian lari)

8. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2022 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2022	**22,875**	**14,057**	**5,469**	**42,401**
New assets originated	16,699	3,750	–	**20,449**
Assets repaid	(16,529)	–	–	**(16,529)**
Foreign exchange and other movements	(2,094)	(28)	–	**(2,122)**
At 31 December 2022	**20,951**	**17,779**	**5,469**	**44,199**

An analysis of changes in the ECL allowances during the year ended 31 December 2022 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2022	**(254)**	**(88)**	**–**	**(342)**
New assets originated	(216)	(54)	–	**(270)**
Assets repaid	156	–	–	**156**
Foreign exchange and other movements	44	74	–	**118**
At 31 December 2022	**(270)**	**(68)**	**–**	**(338)**

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

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2021	**20,449**	**20,720**	**5,469**	**46,638**
New assets originated	3,100	–	–	**3,100**
Assets repaid	–	(6,500)	–	**(6,500)**
Foreign exchange and other movements	(674)	(163)	–	**(837)**
At 31 December 2021	**22,875**	**14,057**	**5,469**	**42,401**

An analysis of changes in the ECL allowances during the year ended 31 December 2021 is as follows:

	Corporate bonds	*Bonds of financial institutions*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2021	**(255)**	**(160)**	**–**	**(415)**
New assets originated	(47)	–	–	**(47)**
Assets repaid	–	4	–	**4**
Foreign exchange and other movements	48	68	–	**116**
At 31 December 2021	**(254)**	**(88)**	**–**	**(342)**

All balances of investment securities are held at amortized cost and are allocated to Stage 1.

(Amounts in tables are in thousands of Georgian lari)

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computers and equipment*	*Motor vehicles*	*Other equipment*	*Leasehold improvements*	*Total*
Cost						
1 January 2021	**2,994**	**5,137**	**561**	**688**	**4,405**	**13,785**
Additions	3	476	–	2	–	**481**
Disposals and write-offs	(831)	(881)	(215)	(155)	(800)	**(2,882)**
31 December 2021	**2,166**	**4,732**	**346**	**535**	**3,605**	**11,384**
Additions	14	310	180	–	15	**519**
Disposals and write-offs	(84)	(102)	–	(19)	(282)	**(487)**
31 December 2022	**2,096**	**4,940**	**526**	**516**	**3,338**	**11,416**
Accumulated depreciation						
1 January 2021	**(1,515)**	**(3,545)**	**(442)**	**(338)**	**(1,207)**	**(7,047)**
Depreciation charge	(438)	(714)	(74)	(89)	(829)	**(2,144)**
Disposals and write-offs	391	669	204	68	302	**1,634**
31 December 2021	**(1,562)**	**(3,590)**	**(312)**	**(359)**	**(1,734)**	**(7,557)**
Depreciation charge	(361)	(647)	(35)	(64)	(713)	**(1,820)**
Disposals and write-offs	77	84	–	15	205	**381**
31 December 2022	**(1,846)**	**(4,153)**	**(347)**	**(408)**	**(2,242)**	**(8,996)**
Net book value						
1 January 2021	**1,479**	**1,592**	**119**	**350**	**3,198**	**6,738**
31 December 2021	**604**	**1,142**	**34**	**176**	**1,871**	**3,827**
31 December 2022	**250**	**787**	**179**	**108**	**1,096**	**2,420**

As at 31 December 2022 fully depreciated items amounted GEL 4,100 thousand (2021: GEL 3,225 thousand).

(Amounts in tables are in thousands of Georgian lari)

10. Leases

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2022 was as follows:

	Right-of-use assets	
	Buildings	***Lease liabilities***
As at 1 January 2022	**5,412**	**6,147**
Additions	504	471
Disposals and write offs (gross)	(599)	(112)
Depreciation expense	(2,038)	–
Disposals and write-offs (accumulated depreciation)	487	–
Interest expense	–	228
Payments	–	(2,312)
Rent concessions	–	(35)
Foreign currency translation difference	–	(615)
As at 31 December 2022	**3,766**	**3,772**

The movement in right-of-use assets and lease liabilities during the year ended 31 December 2021 was as follows:

	Right-of-use assets	
	Buildings	***Lease liabilities***
As at 1 January 2021	**8,921**	**10,528**
Additions	–	–
Disposals and write offs (gross)	(2,496)	(1,432)
Depreciation expense	(2,331)	–
Disposals and write-offs (accumulated depreciation)	1,318	–
Interest expense	–	405
Payments	–	(2,891)
Rent concessions	–	(99)
Foreign currency translation difference	–	(364)
As at 31 December 2021	**5,412**	**6,147**

Future lease payments for each of the next five years for the year ended 31 December 2022 and 2021 are as follows:

	Lease liabilities	
	2022	***2021***
Within one year	1,994	2,472
Between 1 and 2 years	1,682	2,288
Between 2 and 3 years	113	1,797
Between 3 and 4 years	113	–
Between 4 and 5 years	73	–
	3,975	**6,557**

(Amounts in tables are in thousands of Georgian lari)

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
1 January 2021	**149**	**6,349**	**6,498**
Additions	55	1,909	**1,964**
Disposals and write offs	–	(848)	**(848)**
31 December 2021	**204**	**7,410**	**7,614**
Additions	–	2,078	**2,078**
Disposals and write offs	–	(934)	**(934)**
31 December 2022	**204**	**8,554**	**8,758**
Accumulated amortization			
1 January 2021	**(105)**	**(2,152)**	**(2,257)**
Amortisation charge	(20)	(1,320)	**(1,340)**
Disposals and write offs	–	846	**846**
31 December 2021	**(125)**	**(2,626)**	**(2,751)**
Amortisation charge	(20)	(1,666)	**(1,686)**
Disposals and write offs	-	934	**934**
31 December 2022	**(145)**	**(3,358)**	**(3,503)**
Net book value			
1 January 2021	**44**	**4,197**	**4,241**
31 December 2021	**79**	**4,784**	**4,863**
31 December 2022	**59**	**5,196**	**5,255**

12. Other assets and liabilities

Other assets comprise:

	2022	*2021*
Other non-financial assets		
Repossessed collateral	604	372
Prepaid expenses	543	583
Inventory	291	228
Other prepayments	104	–
Prepaid taxes other than income tax	109	54
Prepayments for acquisition of property and equipment and intangible assets	22	–
Prepayments for short-term lease	19	78
	1,692	**1,315**
Other financial assets		
Derivative financial assets	390	186
Funds in settlement	363	133
Accrued commission receivable on guarantees and letters of credit	65	28
Other	344	157
	1,162	**504**
Total other assets	**2,854**	**1,819**

(Amounts in tables are in thousands of Georgian lari)

12. Other assets and liabilities (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability 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.

	2022			*2021*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Forwards/Swaps − foreign	−	−	−	48,246	53	7
Forwards/Swaps − domestic	163,943	390	935	24,313	133	325
Total derivative assets/liabilities		**390**	**935**		**186**	**332**

Foreign and domestic in the table above stand for counterparties where foreign means non-Georgian entities and domestic means Georgian entities.

Other liabilities comprise:

	2022	*2021*
Other financial liabilities		
Funds in settlement	1,169	1,963
Derivative financial liabilities	935	332
Payables and accrued expenses	384	452
	2,488	**2,747**
Other non-financial liabilities		
Payable to employees	3,738	2,428
Taxes other than income tax	36	−
Deferred income	28	11
	3,802	**2,439**
Total other liabilities	**6,290**	**5,186**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	Note	*2022*	*2021*
Time deposits and loans from non-resident commercial banks		67,265	81,331
Loan from the National Bank of Georgia		16,044	20,026
Deposits from the Ministry of Finance		11,505	10,497
Overdraft from the Parent	24	7,379	8,241
Time deposits from resident commercial banks		4,326	3,001
Current accounts of the Parent	24	168	39
Amounts due to credit institutions		**106,687**	**123,135**

As at 31 December 2022 and 2021 the time deposits and loans of non-resident commercial banks are comprised of USD denominated deposits and loans of entity under common control and other non-resident bank.

As at 31 December 2022 time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matures in September 2023 (2021: time deposits of resident commercial banks comprise of deposit placed by one resident commercial bank, is denominated in GEL and matured in January 2022).

Loans from the National Bank of Georgia represent short-term GEL refinancing facilities used by the Bank to uphold its liquidity needs in GEL. As at 31 December 2022, GEL 16,142 thousand worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia (31 December 2021: GEL 20,102 thousand) (Note 8). Deposits from the Ministry of Finance represent GEL 6,024 thousand of short-term funds attracted from the Ministry of Finance as a refinancing facility similar to that of the National Bank of Georgia and GEL 5,481 thousand of the long-term deposit placed by the Ministry as the liquidity support measure in return for the similar term treasury bonds purchased by the Bank.

(Amounts in tables are in thousands of Georgian lari)

14. Amounts due to customers

The amounts due to customers include the following:

	2022	*2021*
Current and demand accounts	100,570	50,690
Time deposits (including certificates of deposit)	171,461	151,297
Amounts due to customers	**272,031**	**201,987**
Held as security against guarantees issued (Note 18)	3,471	2,634

As at 31 December 2022, amounts due to customers included balances with three major customers of GEL 105,564 thousand that constituted 38.81% of the total of customer accounts (31 December 2021: 86,102 thousand that constituted 42.63% of the total of customer accounts).

An analysis of customer accounts by economic sector follows:

	2022	*2021*
Insurance	85,101	68,665
Trade and service	79,575	62,810
Individuals	42,739	36,487
Non-banking credit organizations	26,802	12,515
Construction	20,200	9,401
Energy	13,365	9,863
Government agencies	1,330	402
Real estate management	584	414
Agro	376	22
Transportation and telecommunication	128	–
Mining	10	416
Other	1,821	992
Amounts due to customers	**272,031**	**201,987**

15. Subordinated debt

Subordinated loans consisted of the following:

	2022	*2021*
Subordinated loan from the Parent (Note 24	13,280	15,111
Subordinated loans from entities under common control (Note 24)	13,279	15,111
Subordinated loans	**26,559**	**30,222**

On 19 December 2019 the Bank received USD denominated subordinated loans with an interest rate of 5% p.a. maturing in December 2025 from the Parent and entities under common control. Management believes that as of the origination date of the loans the interest rate on the loans was below the market rate for similar instruments, therefore the loans were recognized at fair value using market interest rate. The difference of GEL 1,155 thousand between fair value and nominal amount of these loans was recognized as additional paid-in capital. Annual effective interest rate equals 5.88%. The loans are not redeemable until their contractual maturity.

The amortised value of the subordinated loans qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was GEL 10,817 thousand (31 December 2021: GEL 18,592 thousand).

(Amounts in tables are in thousands of Georgian lari)

16. Taxation

On 16 December 2022 amendments to the Georgian tax law in respect of corporate income tax for finance sector became enacted. The amendments became effective from 1 January 2023 and under the new regulation, corporate income tax will be 20% for banks, credit unions, microfinance organizations and lending entities.

The corporate income tax benefit for the year ended 31 December 2022 and 2021 comprised:

	2022	*2021*
Current tax expense	–	–
Deferred tax benefit	–	226
Income tax benefit	**–**	**226**

In 2022 and 2021 the income tax rate applicable to the Bank's income was 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit on statutory rates with actual is as follows:

	2022	*2021*
Loss before income tax	**(2,263)**	**(4,232)**
Statutory tax rate	15%	15%
Theoretical income tax benefit at the statutory rate	**339**	**635**
Tax exempt income	109	129
Non-deductible expenses	(45)	(164)
Effect from change in tax legislation	35	–
Unrecognised tax losses carried forward	(438)	(374)
Income tax benefit	**–**	**226**

As the amendments were enacted the existing corporate tax rate for banks will be increased from 15% to 20% from 2023 going forward. In addition, with effect from 2023, taxable Interest Income and deductible expected credit losses on loans to customers (ECL) will be defined per IFRS, instead of local National Bank of Georgia regulations. Transition differences in ECL will be taxed one-off at 15%. The amended law lacks clarification in treatment of transition differences in interest income. The management considers it reasonable that approach similar to ECL on transition is applicable on interest income and calculates deferred tax respectively.

The Bank's accumulated tax losses as at 31 December 2022 equal GEL 27,641 thousand (31 December 2021: GEL 36,939 thousand) on which the Bank has tax loss carried forward GEL 4,146 thousand (31 December 2021: GEL 5,541 thousand), and respective allowance of GEL 3,708 thousand (31 December 2021: GEL 4,866 thousand).

Deferred tax liabilities/assets as at 31 December 2022 and 31 December 2021 and their movements for the respective period:

	2021	*Through statement of profit or loss*	*2022*
Tax effect of deductible temporary differences			
Tax losses carried forward	675	(438)	237
Right of use assets	972	407	1,379
Property and equipment	171	165	336
Amounts due from credit institutions	1	–	1
Other assets	25	–	25
Subordinated debt	50	60	110
Other liabilities	303	156	459
Deferred tax asset	**2,197**	**350**	**2,547**
Tax effect of taxable temporary differences			
Investment securities	(90)	(8)	(98)
Intangible assets	(140)	(31)	(171)
Loans to customers	(1,124)	239	(885)
Lease liabilities	(843)	(550)	(1,393)
Deferred tax liability	**(2,197)**	**(350)**	**(2,547)**
Deferred tax (liability)/asset	**–**	**–**	**–**

(Amounts in tables are in thousands of Georgian lari)

16. Taxation (continued)

	2020	*Through statement of profit or loss*	*2021*
Tax effect of deductible temporary differences			
Tax losses carried forward	–	675	675
Right of use assets	622	350	972
Property and equipment	52	119	171
Amounts due from credit institutions	4	(3)	1
Other assets	24	1	25
Subordinated debt	9	41	50
Other liabilities	225	78	303
Deferred tax asset	**936**	**1,261**	**2,197**
Tax effect of taxable temporary differences			
Investment securities	(92)	2	(90)
Intangible assets	(113)	(27)	(140)
Loans to customers	(603)	(521)	(1,124)
Lease liabilities	(354)	(489)	(843)
Deferred tax liability	**(1,162)**	**(1,035)**	**(2,197)**
Deferred tax (liability)/asset	**(226)**	**226**	**–**

17. Equity

In March 2022 GEL 26,000 thousand of share capital was injected in cash by the Parent of the Bank. The ownership structure was not changed. As at 31 December 2022 the Bank's authorized, issued and fully paid capital amounted to GEL 129,000 thousands comprising of 129,000,000 common shares with nominal value of GEL 1.00 (2021: 103,000 thousand comprising of 103,000,000 common shares). Each common share entitles one vote to the shareholder.

In accordance with Georgian legislation, dividends may only be declared by the Bank's Parent from the net income as shown in the Bank's financial statements prepared in compliance with the NBG requirements. The Bank is obliged to officially inform the NBG of any dividends declared and the NBG reserves the right to suspend or restrict the disbursement of dividends should the Bank be in breach of the NBG regulations.

No dividends were declared or paid during the year ended 31 December 2022 and 2021.

Additional paid-in capital represents the difference between a fair value and a nominal amount at initial recognition of the subordinated loans received from the Parent and entities under common control.

18. Commitments and contingencies

Operating environment

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short−term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long−term economic growth. Moreover, the rates of economic growth have not been sufficient to reach significant part of Georgian population and failed to have an impact on reducing unemployment and poverty levels. According to Georgia's socio−economic development strategy, the economic policy of Georgia is based on the principles of fast and efficient economic growth driven by development of the real sector of economy, implementation of economic policies that would facilitate inclusive economic growth and rational use of natural resources, ensuring environmental safety and sustainability. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. 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.

In line with the overall developments in the Georgian banking sector, the Bank has also suffered from the effects of the economic downturn caused by COVID 19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre−pandemic periods.

During the current reporting period the government lifted numerous COVID−19 related restrictions imposed earlier, releasing practically all of them. This has had a positive overall impact on the economy.

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Operating environment (continued)

According to the preliminary estimates published by the National Statistics Office of Georgia, December 2022 growth of GDP amounted 11.0%, resulting in twelve−month average growth of 10.1%. Major contributing factors to the growth have been construction, manufacturing, transportation and storage, financial and insurance activities, trade, hotels and restaurants. Based on the preliminary findings of IMF staff mission to Georgia, the 2022 growth is expected to reach 10.0%.

As published by the National Statistics Office of Georgia, the level of inflation reached 9.8% year−on−year in December 2022. High inflation is a global economic challenge. In the post-pandemic period, Russia's invasion of Ukraine has further increased energy and food prices on international markets. As a result, consumer prices rose sharply all over the world. These globally increased prices were also transmitted to the Georgian market and remain the main reason for high inflation in the country. At the same time, economic activity in Georgia has been high, largely facilitated by the restoration of tourism against the backdrop of an increase in long-term visits by Russians and Belarusians. Strong economic activity increases the risk of demand-side inflationary pressure, although this has been partly offset by the recent appreciation of the lari exchange rate.

Moreover, food prices on world markets have recently been declining, which gives grounds for cautious optimism. As a result of the continued tight monetary policy and the exhaustion of supply-side shocks, the NBG expects that inflation will gradually decline to return to the target level from the second half of 2023. However, as uncertainty remains and inflationary risks are at a high level, during the reporting period the NBG has increased and kept the monetary policy rate tight at 11%.

Despite the negative effect of the pandemic and war the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis. The Bank is working to decrease NPLs to reasonable levels using timely restructuring actions, continued support from the Parent and diligent collection actions.

The Bank has applied the latest available macroeconomic forecasts for the ECL measurement purposes.

Although the management of the Bank is strongly committed to the further expansion of the Bank on the Georgian market in line with the approved strategic plans, the major medium−term focus amidst the persisting uncertainties related to COVID−19 and Russian−Ukrainian war developments is to restore and preserve sufficient retained earnings to ensure strong platform for future growth and development.

Taxation

Georgian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant tax authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation as at 31 December 2022 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Legal

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

(Amounts in tables are in thousands of Georgian lari)

18. Commitments and contingencies (continued)

Legal (continued)

Commitments and contingencies

As at 31 December 2022 and 2021, the Bank's commitments and contingencies comprised the following:

	2022	***2021***
Credit related commitments		
Unused credit lines	62,154	26,461
Letters of credit	260	–
	62,414	**26,461**
Performance guarantees issued		
Performance guarantees issued	61,119	25,731
	61,119	**25,731**
Less: ECL for credit related commitments	(356)	(195)
Commitments and contingencies (before deducting collateral)	**123,177**	**51,997**
Less: deposits held as security against guarantees issued (Note 14)	(3,471)	(2,634)
Commitments and contingencies	**119,706**	**49,363**

An analysis of changes in the ECL allowances during the year ended 31 December 2022 is, as follows (ECL for letters of credit is immaterial):

	Unused credit lines
ECL as at 1 January 2022	**(195)**
New exposures	(835)
Matured exposures	643
Foreign exchange and other movements	31
At 31 December 2022	**(356)**

All balances of guarantees issued and letters of credit are allocated to stage 1.

An analysis of changes in the ECL allowances during the year ended 31 December 2021 is, as follows:

	Unused credit lines
ECL as at 1 January 2021	**(395)**
New exposures	(1,900)
Matured exposures	1,594
Foreign exchange and other movements	506
At 31 December 2021	**(195)**

19. Net fee and commission income

Net fee and commission income comprise:

	2022	***2021***
Plastic card operations	1,403	473
Guarantees and letters of credits issued	963	756
Settlement operations	631	429
Cash operations	45	58
Fee and commission income	**3,042**	**1,716**
Plastic card operations	(1,070)	(1,021)
Settlement operations	(808)	(615)
Cash operations	(5)	(8)
Other	(131)	(16)
Fee and commission expense	**(2,014)**	**(1,660)**
Net fee and commission income	**1,028**	**56**

(Amounts in tables are in thousands of Georgian lari)

19. Net fee and commission income (continued)

Revenue from contracts with customers

The Bank'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 2022 amounted to GEL 3,042 thousand (2021: GEL 1,716 thousand).

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

	2022	*2021*
Deferred income (presented within other liabilities)	28	11

The Bank usually collects fees and commissions in advance of completion of the underlying transaction or shortly thereafter (for contracts where performance obligation is satisfied point in time, such as settlement transactions). For services provided over time (such as those related to fees for guarantees and letters of credit issued), the Bank usually charges upfront monthly, quarterly or annual fees covering respective portion of the overall contract period.

The Bank recognised GEL 11 thousand revenue from contracts with customers in the current reporting period that relates to carried-forward contract liabilities included in deferred income as at 31 December 2021.

20. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprise:

	2022	*2021*
Salaries	15,038	12,847
Bonuses and other employee benefits	4,412	2,544
Personnel expenses	**19,450**	**15,391**
Professional services	3,881	3,008
Advertising costs (a)	3,132	989
Short-term leases	653	785
Communication	366	296
Office supplies	294	128
Insurance	178	195
Utilities	158	192
Personnel training	145	160
Membership fees	128	99
Charity costs	115	58
Corporate hospitality and entertainment	107	90
Transportation and business trip expenses	84	56
Maintenance and exploitation	67	62
Deposit insurance fee	44	18
Recruitment costs	42	31
Taxes other than income tax	36	55
Security expenses	25	29
Other	146	290
General and administrative expenses	**9,601**	**6,541**

(a) Increase in advertising costs is linked to the Bank's marketing campaigns related to its retail business.

Remuneration of the Bank's auditor, including under professional services fees, for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	*2021*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	120	130
Expenditures for other assurance services	51	56
Expenditures for other professional service	3	4
Total fees and expenditures	**174**	**190**

(Amounts in tables are in thousands of Georgian lari)

20. Personnel, general and administrative expenses (continued)

Fees and expenditures to other professional audit firms in respect of other professional services comprised GEL 9 thousand in 2022 (2021: GEL 28 thousand).

The average number of the Bank's employees during 2022 was 336, including average 4 top management employees, average 48 middle management employees, average 274 other full-time employees and average 10 employees under temporary service contracts (2021: 308, including average 4 top management employees, average 43 middle management employees, average 257 other full-time employees and average 4 employees under temporary service contracts).

21. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk management

The Risk Management Department is responsible for determining, implementing and maintaining risk management framework.

Asset and Liability Committee

Asset and Liability Committee (ALCO) is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding, liquidity, interest rate, and capital adequacy risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function on a constant basis, which examines the adequacy of the procedures, their design and operational effectiveness, and the Bank's compliance both with the regulatory requirements and internal procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Audit Committee

The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and performance of control functions by other departments in the Bank pertaining to general control environment, manual, IT dependent or application controls, intentional or unintentional misstatement risks, risk of fraud or misappropriation of assets, information security, anti-money laundering, etc. Audit committee is comprised of three members, out of which two are independent.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The main body to which the risks are reported is ALCO. The respective meetings are held once a month.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Risk management structure (continued)

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 Bank's performance to developments affecting a particular industry or geographical location.

Credit risk

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

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

Impairment assessment

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

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

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

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

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 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 Bank 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 Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank 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.

The Bank has defined certain criteria which should be met in order to consider asset as cured. 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 Bank's Credit Risk Department operates its internal rating models. The Bank runs separate models for its corporate and commercial portfolios in which its customers are rated from Aaa to Ca-C using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. 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. As for consumer portfolio, customers are rated from A to E3 using credit bureu rating tools.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks. For these relationships, the Bank'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.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

Corporate and commercial lending

For corporate and commercial loans, the borrowers are assessed by specialised credit risk employees of the Bank. 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.

Consumer lending

Consumer lending comprises of loans, credit cards and overdrafts offered to clients. Credit risk and relevant loan loss allowance on this portfolio is assessed on a collective basis for performing loans and individual basis in relation to non-performing loans.

The Bank's internal credit rating for corporate and commercial segments grades are as follows:

Internal rating Grade	*Internal rating*	*PD*	*Internal rating description*
Class 1	Aaa	0.0008%	High grade
Class 1	Aa1	0.0015%	High grade
Class 1	Aa2	0.0026%	High grade
Class 1	Aa3	0.0047%	High grade
Class 1	A1	0.0084%	High grade
Class 1	A2	0.0149%	High grade
Class 1	A3	0.0267%	High grade
Class 1	Baa1	0.0476%	Standard grade
Class 1	Baa2	0.0850%	Standard grade
Class 1	Baa3	0.1517%	Standard grade
Class 1	Ba1	0.2705%	Standard grade
Class 1	Ba2	0.4821%	Standard grade
Class 1	Ba3	0.8576%	Standard grade
Class 2	B1	1.5213%	Standard grade
Class 2	B2	2.6848%	Standard grade
Class 3	B3	4.6955%	Standard grade
Class 3	Caa1	8.0871%	Sub-standard grade
Class 3	Caa2	13.5793%	Sub-standard grade
Class 3	Caa3	21.9123%	Sub-standard grade
Class 3	Ca-C	33.3835%	Sub-standard grade
	Default	100.0000%	Impaired

The Bank's internal credit rating for consumer segments grades are as follows:

Internal rating Grade	*Internal rating*	*PD*	*Internal rating description*
Class 1	A	0.0150	High grade
Class 1	B	0.0200	High grade
Class 1	C1	0.0250	High grade
Class 1	C2	0.0350	High grade
Class 1	C3	0.0500	High grade
Class 2	D1	0.0700	Standard grade
Class 2	D2	0.0900	Standard grade
Class 2	D3	0.1200	Standard grade
Class 3	E1	0.1500	Sub-standard grade
Class 3	E2	0.2000	Sub-standard grade
Class 3	E3	0.2500	Sub-standard grade

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

Exposure at default

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

Loss given default

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

Significant increase in credit risk

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

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. 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. Downgrade in credit rating is a SICR criterion.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

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

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

- All Stage 3 assets, regardless of the class of financial assets except consumer portfolio;
- Stage 2 and Stage 3 corporate and commercial portfolio;
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring.

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

- The smaller and more generic balances of the Bank's commercial portfolio;
- Stage 1 and 2 consumer lending.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, or borrower's industry.

Forward-looking information and multiple economic scenarios

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

- GDP growth;
- Inflation.

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.

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

The Bank obtains the forward-looking information from the sources published by the NBG, GeoStat, IMF, World and Regional Economic Outlooks, S&P Global Ratings and other. Experts of the Bank'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. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2022:

			Subsequent years to 2022			*Subsequent years to 2021*		
Key drivers	***ECL scenario***	***Assigned probabilities, %***	***2023***	***2024***	***2025***	***2022***	***2023***	***2024***
GDP growth, %								
	Upside	25%	6.0%	5.0%	5.0%	6.0%	5.0%	4.5%
	Base case	50%	4.0%	5.5%	5.0%	5.0%	4.0%	4.5%
	Downside	25%	2.0%	4.0%	5.0%	2.0%	4.0%	5.0%
Inflation level								
	Upside	25%	5.0%	3.0%	3.0%	5.5%	3.0%	3.0%
	Base case	50%	5.3%	3.1%	3.0%	7.0%	2.5%	3.0%
	Downside	25%	9.0%	6.0%	3.0%	8.0%	4.0%	3.0%

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of financial assets as at 31 December 2022, based on the Bank's credit rating system:

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	24,811	33,190	218	–	**58,219**
Amounts due from credit institutions	6	Stage 1	3,472	43,455	–	–	**46,927**
Loans to customers	7		32,732	289,797	12,387	32,793	**367,709**
Corporate		Stage 1	–	183,587	218	–	**183,805**
		Stage 2	–	6,736	–	–	**6,736**
		Stage 3	–	–	–	162	**162**
Commercial		Stage 1	–	68,489	3,463	-	**71,952**
		Stage 2	–	13,792	6,718	-	**20,510**
		Stage 3	–	–	–	29,921	**29,921**
Consumer		Stage 1	32,375	16,649	1,738	–	**50,762**
		Stage 2	357	544	250	–	**1,151**
		Stage 3	–	–	–	2,710	**2,710**
Debt investment securities at amortized cost	8	Stage 1	–	44,199	–	–	**44,199**
Unused credit lines	18	Stage 1	34,636	25,171	995	–	**60,802**
		Stage 3	–	–	–	1,352	**1,352**
Letters of credit	18	Stage 1	–	–	260	–	**260**
Total			**95,651**	**435,812**	**13,860**	**34,145**	**579,468**

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of financial assets at 31 December 2021:

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	739	36,897	–	–	**37,636**
Amounts due from credit institutions	6	Stage 1	–	50,666	–	–	**50,666**
Loans to customers	7		16,595	236,750	39,122	16,370	**308,837**
Corporate		Stage 1	–	113,579	613	–	**114,192**
		Stage 2	–	39,517	728	–	**40,245**
		Stage 3	–	–	–	–	–
Commercial		Stage 1	–	54,757	13,013	–	**67,770**
		Stage 2	–	21,697	23,819	–	**45,516**
		Stage 3	–	–	–	15,632	**15,632**
Consumer		Stage 1	16,500	7,007	918	-	**24,425**
		Stage 2	95	193	31	-	**319**
		Stage 3	-	-	-	738	**738**
Debt investment securities at amortized cost	8	Stage 1	–	42,401	–	–	**42,401**
Unused credit lines	18	Stage 1	14,110	8,968	1,771	–	**24,849**
		Stage 2	–	25	1,237	–	**1,262**
		Stage 3	–	–	–	350	**350**
Total			**31,444**	**375,707**	**42,130**	**16,720**	**466,001**

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

	2022				*2021*			
	Georgia	*OECD*	*Other Non-OECD*	*Total*	*Georgia*	*OECD*	*Other Non-OECD*	*Total*
Assets								
Cash and cash equivalents	35,597	24,811	2,134	**62,542**	37,241	3,999	1,140	**42,380**
Amounts due from credit institutions	43,455	3,472	–	**46,927**	50,662	–	–	**50,662**
Loans to customers	338,501	–	12,384	**350,885**	294,695	–	278	**294,973**
Investment securities	43,861	–	–	**43,861**	42,059	–	–	**42,059**
Other assets	1,145	8	9	**1,162**	424	19	61	**504**
	462,559	**28,291**	**14,527**	**505,377**	**425,081**	**4,018**	**1,479**	**430,578**
Liabilities								
Amounts due to credit institutions	31,875	1	74,811	**106,687**	33,525	–	89,610	**123,135**
Amounts due to customers	168,995	1,231	101,805	**272,031**	114,038	232	87,717	**201,987**
Lease liabilities	3,772	–	–	**3,772**	6,147	–	–	**6,147**
Other liabilities	2,403	7	78	**2,488**	2,665	15	67	**2,747**
Subordinated debt	–	–	26,559	**26,559**	–	–	30,222	**30,222**
	207,045	**1,239**	**203,253**	**411,537**	**156,375**	**247**	**207,616**	**364,238**
Net assets/(liabilities)	**255,514**	**27,052**	**(188,726)**	**93,840**	**268,706**	**3,771**	**(206,137)**	**66,340**

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Funds attracted from the Parent provide sufficient sources for the Bank's operations in the foreseeable future. The Bank manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of corporate and Ministry of Finance bonds that can be pledged to the NBG in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on the certain liquidity ratios established by the NBG.

The liquidity coverage ratio (LCR) is calculated as the ratio of high-quality liquid assets (HQLA) to net cash outflow. The Bank is required to maintain at all times the stock of liquid assets to enable it to cover its net cash outflows in the 30 calendar days stress scenario. The minimum LCR requirement set by the NBG is 100% for foreign currency and combined LCR and 75% for national currency LCR respectively. At 31 December the Bank reported the following LCR levels:

	2022, %	*2021, %*
GEL	234.6	161.8
Foreign currency	200.3	250.6
Combined	211.3	222.3

The net stable funding ratio (NSFR) requires the Bank to maintain a stable funding profile in relation to the composition of its assets and off balance sheet activities in order to reduce the likelihood, that disruptions to the Bank's regular sources of funding will significantly erode its liquidity position. The NSFR is calculated as the ratio of available amount of stable funding over the required amount of stable funding. At 31 December the Bank reported the following NSFR levels:

	2022, %	*2021, %*
NSFR	130.3	113.8

Analysis of financial liabilities by remaining contractual maturities

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

As at 31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	30,076	4,959	72,550	5,513	**113,098**
Amounts due to customers	113,786	69,111	103,215	–	**286,112**
Lease liabilities	533	1,461	1,981	–	**3,975**
Other financial liabilities	2,488	–	–	–	**2,488**
Subordinated debt	–	1,370	29,763	–	**31,133**
Total undiscounted financial liabilities	**146,883**	**76,901**	**207,509**	**5,513**	**436,806**

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (continued)

Liquidity risk and funding management (continued)

As at 31 December 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	36,740	84,206	2,102	6,038	**129,086**
Amounts due to customers	60,548	50,118	99,521	–	**210,187**
Lease liabilities	618	1,854	4,085	–	**6,557**
Other financial liabilities	2,749	–	–	–	**2,749**
Subordinated debt	–	1,570	35,691	–	**37,261**
Total undiscounted financial liabilities	**100,655**	**137,748**	**141,399**	**6,038**	**385,840**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	Note	*Less than 3 months*	*1 to 5 years*	*Over 5 years*	*Total*
2022	18	62,154	–	–	**62,154**
2021	18	26,461	–	–	**26,461**

The Bank 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 table above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

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

Currency	*Change in currency rate 2022*	*Effect on profit before tax 2022*	*Change in currency rate 2021*	*Effect on profit before tax 2021*
USD	15%/(15%)	442/(442)	15%/(15%)	393/(393)
EUR	15%/(15%)	239/(239)	15%/(15%)	1,210/(1,210)

(Amounts in tables are in thousands of Georgian lari)

21. Risk management (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 following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

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

Currency	*Increase/(decrease) in basis points 2022*	*Sensitivity of net interest income 2022*
GEL	100/(100)	1,323/(1,323)

Currency	*Increase/(decrease) in basis points 2021*	*Sensitivity of net interest income 2021*
GEL	100/(100)	1,072/(1,072)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

22. Fair value measurements

Fair value hierarchy

The Bank 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 — 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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
At 31 December 2022	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	62,542	−	−	**62,542**
Amounts due from credit institutions	−	−	46,927	**46,927**
Loans to customers	−	−	347,315	**347,315**
Investment securities	−	6,746	37,315	**44,061**
Assets measured at fair value				
Other assets − derivative financial assets	−	390	−	**390**

(Amounts in tables are in thousands of Georgian lari)

22. Fair value measurements (continued)

	Fair value measurement using			
At 31 December 2022	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	29,615	77,072	**106,687**
Amounts due to customers	–	111,409	160,772	**272,181**
Lease liabilities	–	–	3,772	**3,772**
Subordinated debt	–	–	26,559	**26,559**
Liabilities measured at fair value				
Other liabilities − derivative financial liabilities	–	935	–	**935**

	Fair value measurement using			
At 31 December 2021	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets for which fair values are disclosed				
Cash and cash equivalents	42,380	–	–	**42,380**
Amounts due from credit institutions	–	–	50,662	**50,662**
Loans to customers	–	–	294,973	**294,973**
Investment securities	–	5,338	37,538	**42,876**
Assets measured at fair value				
Other assets − derivative financial assets	–	186	–	**186**

	Fair value measurement using			
At 31 December 2021	***Level 1***	***Level 2***	***Level 3***	***Total***
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	123,135	**123,135**
Amounts due to customers	–	–	201,987	**201,987**
Lease liabilities	–	–	6,147	**6,147**
Subordinated debt	–	–	30,222	**30,222**
Liabilities measured at fair value				
Other liabilities − derivative financial liabilities	–	332	–	**332**

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 Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2022	***Fair value 2022***	***Unrecognised gain(loss) 2022***	***Carrying value 2021***	***Fair value 2021***	***Unrecognised gain(loss) 2021***
Financial assets						
Cash and cash equivalents	62,542	62,542	–	42,380	42,380	–
Amounts due from credit institutions	46,927	46,927	–	50,662	50,662	–
Loans to customers	350,885	347,315	(3,570)	294,973	294,973	–
Investment securities	43,861	44,061	200	42,059	42,876	817
Other financial assets	1,162	1,162	–	504	504	–
Financial liabilities						
Amounts due to credit institutions	106,687	106,687	–	123,135	123,135	–
Amounts due to customers	272,031	272,181	150	201,987	201,987	–
Other financial liabilities	2,488	2,488	–	2,747	2,747	–
Lease liabilities	3,772	3,772	–	6,147	6,147	–
Subordinated debt	26,559	26,559	–	30,222	30,222	–
Total unrecognised change in fair value			**(3,220)**			**817**

(Amounts in tables are in thousands of Georgian lari)

22. Fair value measurements (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets and liabilities for which fair value approximates carrying value

The carrying amounts of cash and cash equivalents, amounts due from credit institutions and amounts due to credit institutions, are considered to approximate their respective fair values due to their short-term maturities, liquid nature and as such continues repricing to market terms. Considering the nature and characteristics, the cash and cash equivalents are classified as Level 1 of the fair value hierarchy.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates.

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, amounts due to credit institutions, subordinated debt 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.

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to their contractual maturities. See Note 21 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2022			***2021***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	62,542	–	**62,542**	42,380	–	**42,380**
Amounts due from credit institutions	46,927	–	**46,927**	50,662	–	**50,662**
Loans to customers	146,055	204,830	**350,885**	109,574	185,399	**294,973**
Investment securities	14,525	29,336	**43,861**	6,463	35,596	**42,059**
Property and equipment	–	2,420	**2,420**	–	3,827	**3,827**
Right of use assets	–	3,766	**3,766**	–	5,412	**5,412**
Intangible assets	–	5,255	**5,255**	–	4,863	**4,863**
Other assets	2,250	604	**2,854**	1,408	411	**1,819**
Total	**272,299**	**246,211**	**518,510**	**210,487**	**235,508**	**445,995**
Amounts due to credit institutions	34,174	72,513	**106,687**	117,654	5,481	**123,135**
Amounts due to customers	177,398	94,633	**272,031**	106,210	95,777	**201,987**
Provisions	356	–	**356**	240	–	**240**
Lease liabilities	320	3,452	**3,772**	–	6,147	**6,147**
Other liabilities	5,696	594	**6,290**	5,186	–	**5,186**
Subordinated debt	45	26,514	**26,559**	–	30,222	**30,222**
Total	**217,989**	**197,706**	**415,695**	**229,290**	**137,627**	**366,917**
Net	**54,310**	**48,505**	**102,815**	**(18,803)**	**97,881**	**79,078**

(Amounts in tables are in thousands of Georgian lari)

24. 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 of related party transactions are as follows:

	2022				***2021***			
	The Parent	***Key management personnel***	***Entities under common control***	***Other***	***The Parent***	***Key management personnel***	***Entities under common control***	***Other***
Cash and cash equivalents	227	–	1,694	–	284	–	3,946	–
Amounts due from credit institutions	–	-	3,472	–				
Loans to customers	–	252	–	3	–	322	–	2
Other assets	–	–	1	–	–	–	–	–
Amounts due to credit institutions	(7,547)	–	(13,982)	–	(8,278)	–	(16,960)	–
Amounts due to customers	–	(4,727)	(88,425)	–	–	(9,066)	(86,502)	–
Other liabilities	–	–	(17)	–	–	–	(3)	(7)
Subordinated debt	(13,280)	–	(13,279)	–	(15,111)	–	(15,111)	–

The Bank's liabilities towards related parties amount to 34% of its total liabilities as at 31 December 2022 (2021: 41%), which represents a significant concentration.

The income and expense arising from related party transactions are as follows:

	2022				***2021***			
	The Parent	***Key management personnel***	***Entities under common control***	***Other***	***The Parent***	***Key management personnel***	***Entities under common control***	***Other***
Fee and commission income	5	–	11	–	2	–	2	–
Fee and commission expense	(2)	–	(1)	–	(2)	–	(5)	–
Interest income on loans to customers	–	14	–	–	–	21	–	–
Interest income on amounts due from credit institutions	(2)	–	43	–	(2)	–	7	–
Interest expense on amounts due to credit institutions	(35)	–	(567)	–	(21)	–	(711)	–
Interest expense on amounts due to customers	–	(259)	(3,186)	–	–	(314)	(3,121)	–
Interest expense on subordinated debt	(739)	–	(739)	–	(816)	–	(816)	–
Professional fees	–	–	(56)	(8)	–	–	–	(18)
Charity costs	–	–	–	(27)	–	–	–	–

The Bank's interest expense on liabilities towards related parties is 33% of its total interest expense (2021: 37%).

(Amounts in tables are in thousands of Georgian lari)

24. Related party disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2022	*2021*
Salaries and other short-term benefits	2,506	2,275

Key management personnel as at 31 December 2022 comprised of 5 members of the Supervisory Board and 3 members of the Board of Directors of the Bank (2021: 5 members of the Supervisory Board and 4 members of the Board of Directors).

25. Capital adequacy

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

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant or Chief Financial Officer and subsequently submitted to the NBG.

During year ended 31 December 2022 the Bank followed externally imposed capital requirements.

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

NBG capital adequacy ratio

Under the capital framework, capital requirements are divided into Pillar 1 Requirements for Common Equity Tier 1, Tier 1 and Regulatory Capital and additional buffers under Pillar 1 and Pillar 2.

Pillar 1

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

Pillar 2

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

NBG special supervisory plan

On 31 March 2020, NBG announced its supervisory plan to combat the negative effects of COVID−19. The plan alleviates the regulatory burden on commercial banks in the period of distress in order to enable them to carry on their businesses and continue lending to real economy. In particular, NBG has allowed commercial banks to use their capital buffers by eliminating the 2.5% conservation buffer and decreasing the foreign currency induced credit risk buffer by 2/3. NBG has also put in place a moratorium on any regulatory breaches of commercial banks caused by external factors such as additional credit losses, foreign exchange rate fluctuations and so on. In March 2022, as described in Note 17 to this financial statements, GEL 26,000 thousand additional share capital was injected by the Parent of the Bank. As a result of this, the Bank stopped using capital buffers.

(Amounts in tables are in thousands of Georgian lari)

25. Capital adequacy (continued)

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 18.53%, Tier 1 Capital ratio of 13.63% and Core Tier 1 Capital ratio of 10.84% of risk-weighted assets, computed based on Basel III requirements. As at 31 December 2022 and 2021 the Bank's capital adequacy ratio on this basis was as follows:

	Notes	***31 December 2021 Per the NBG***	***31 December 2022 Per the NBG***
Share capital	15	103,000	129,000
Retained earnings		(26,983)	(33,136)
Less: intangible assets, net	9	(4,863)	(5,255)
Current period loss		(6,153)	(2,131)
Core tier 1 capital		**65,001**	**88,478**
Tier 1 capital		**65,001**	**88,478**
Tier 2 capital		18,592	10,817
Supplementary capital		5,256	6,223
Total regulatory capital		**88,849**	**105,518**
Risk weighted assets		**475,591**	**556,153**
Capital adequacy ratio		18.68%	18.97%
Core Tier 1 capital / Tier 1 capital adequacy ratio		13.67%	15.91%

As at 31 December 2022 the Bank's capital adequacy ratio is close to the minimal requirement. The Bank is undertaking several initiatives aimed at improving its capital adequacy, including, but not limited to, the following:

- The Bank is expecting to obtain capital injection from the Parent in a range of GEL 13,000-16,000 thousand during first half of 2023;
- The Bank is expecting to reschedule its subordinated debt and extend maturity from 2025 until 2029.

Management believes that the combination of the aforementioned initiatives will provide the Bank with necessary capital to continue its operations beyond 2023. The Bank's management is of the view that it is appropriate to prepare the financial statements on a going concern basis. This basis of preparation presumes that the Parent has both the ability and intention to implement the financial support that will allow the Bank to realize its assets and discharge its liabilities in the ordinary course of business.