Silk Road Bank

Financial Statements
for the year ended 31 December 2018

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Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Silk Road Bank

Opinion

We have audited the financial statements of JSC Silk Road Bank (the "Bank"), which comprise the statement of financial position as at 31 December, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December, 2018, and its financial performance and its cash flows for the year then ended in accordance with International *Financial Reporting Standards (IFRS).*

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management Report

Management is responsible for the Management Report, which does not include the financial statements and our auditors' report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

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

When we read the Management Report, we conclude whether the other information:

- — is consistent with the financial statements and does not contain material misstatement;
- — contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2017 were audited by other auditors who expressed an unmodified opinion on those statements on 14 May 2018.

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

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

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

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

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG
Tbilisi, Georgia
15 May 2019

	Notes	2018 GEL'000	2017* GEL'000
Interest income calculated using the effective interest method	6	4,237	2,810
Interest expense	6	(587)	(631)
Net interest income		**3,650**	**2,179**
Fee and commission income		745	540
Fee and commission expense		(221)	(135)
Net fee and commission income		**524**	**405**
Net gain from foreign currencies dealings		951	294
Net foreign currency revaluation (loss)/gain		(444)	96
Net loss from disposal of investment property		-	(873)
Net loss from disposal of assets held for sale		(397)	-
Impairment loss on the assets held for sale		(1,452)	(1,683)
Impairment loss on debt financial assets and loan commitments, net	12	(2,933)	(273)
Salaries and employment benefits expenses		(1,848)	(2,034)
General administrative expenses	7	(3,637)	(2,765)
Other income		371	395
Loss before income tax		**(5,215)**	**(4,259)**
Income tax benefit	8	528	39
Loss for the year		**(4,687)**	**(4,220)**
Other comprehensive income	8		
Revaluation of land and buildings		2,490	315
Income tax relating to components of other comprehensive income		(383)	(47)
Total other comprehensive income		**2,107**	**268**
Total comprehensive loss for the year		**(2,580)**	**(3,952)**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(e)).

The financial statements as set out on pages 6 to 50 were approved by management on 15 May 2019 and were signed on its behalf by:

Eli Enoch
Chief Executive Officer

Natia Merabishvili
Chief Financial Officer

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	31 December 2018 GEL'000	31 December 2017* GEL'000
ASSETS			
Cash and cash equivalents	9	20,073	15,973
Amounts due from credit institutions	10	2,183	2,273
Investment securities	11	13,637	10,255
Loans to customers	12	15,987	6,433
Property and equipment	13	18,189	16,274
Investment property		-	638
Intangible assets		56	57
Assets held for sale	12	4,918	5,806
Current tax asset	8	55	280
Other assets		823	577
Total assets		**75,921**	**58,566**
LIABILITIES			
Current accounts and deposits from customers	14	12,892	15,463
Subordinated borrowings	15	-	9,076
Deferred tax liabilities	8	134	279
Other liabilities		873	690
Total liabilities		**13,899**	**25,508**
EQUITY	16		
Share capital		61,146	30,000
Reserves		7,322	5,321
Accumulated loss		(6,446)	(2,263)
Total equity		**62,022**	**33,058**
Total liabilities and equity		**75,921**	**58,566**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 3(e)). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(e)).

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2018 GEL'000	2017 GEL'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		4,115	3,069
Interest payments		(587)	(649)
Fee and commission receipts		745	540
Fee and commission payments		(221)	(120)
Net receipts from foreign currencies dealings		951	294
Other income receipts		372	344
Personnel expenses paid		(1,848)	(2,003)
Other general administrative expenses paid		(3,050)	(2,652)
(Increase) decrease in operating assets			
Amounts due from credit institutions		14	9,951
Loans to customers		(12,447)	1,188
Other assets		154	17
Increase (decrease) in operating liabilities			
Deposits and balances from banks		-	(9,000)
Current accounts and deposits from customers		(2,547)	(17,468)
Other liabilities		194	(112)
Net cash flows from operations		**(14,155)**	**(16,601)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities		(10,683)	-
Proceeds from sale of investment securities		7,262	1,831
Proceeds from sale of investment property		-	1,244
Purchase of property plant and equipment and intangible assets		(21)	(47)
Proceeds from sale of investment property		-	174
Net cash (used in)/flows used in investing activities		**(3,442)**	**3,202**
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of)/proceeds from subordinated borrowings		(8,990)	9,060
Proceeds from issue of share capital		31,146	-
Net cash flows from financing activities		**22,156**	**9,060**
Net increase (decrease) in cash and cash equivalents		**4,100**	**(4,147)**
Effect of changes in exchange rates on cash and cash equivalents		(459)	192
Cash and cash equivalents as at the beginning of the year		15,973	20120
Cash and cash equivalents as at the end of the year	9	**20,073**	**15,973**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(b)).

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

GEL'000	Share capital	Revaluation reserve of property and equipment	Retained earnings/ (accumulated loss)	Total equity
Balance as at 1 January 2017	30,000	5,153	1,857	37,010
Total comprehensive income/(loss)				
Loss for the year	-	-	(4,220)	(4,220)
Other comprehensive income/(loss)				
Revaluation reserve for property and equipment	-	315	-	315
Deferred tax effect	-	(47)	-	(47)
Depreciation of revaluation reserve, net of tax	-	(100)	100	-
Total other comprehensive income	-	**168**	**100**	**268**
Total comprehensive income/(loss)	-	**168**	**(4,120)**	**(3,952)**
Balance as at 31 December 2017	**30,000**	**5,321**	**(2,263)**	**33,058**
Balance as at 31 December 2017*	30,000	5,321	(2,263)	33,058
Adjustment on initial application of IFRS 9, net of tax (see Note 5)	-	-	398	398
Restated balance as at 1 January 2018	**30,000**	**5,321**	**(1,865)**	**33,456**
Total comprehensive income /(loss)				
Loss for the year	-	-	(4,687)	(4,687)
Other comprehensive income/(loss)				
Revaluation of property plant and equipment	-	2,490	-	2,490
Deferred tax effect	-	(383)	-	(383)
Depreciation of revaluation reserve, net of tax	-	(106)	106	-
Total other comprehensive income	-	**2,001**	**106**	**2,107**
Total comprehensive income/(loss)	-	**2,001**	**(4,581)**	**(2,580)**
Transactions with owners, recorded directly in equity				
Shares issued	31,146	-	-	31,146
Total transactions with owners	**31,146**	-	-	**31,146**
Balance as at 31 December 2018	**61,146**	**7,322**	**(6,446)**	**62,022**

* The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3(b)).

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

JSC Silk Road Bank (the "Bank") is a Georgian joint stock company.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The Bank's registered legal address is 2, Zaarbrukeni Square, Tbilisi, Georgia. The Bank is regulated by the National Bank of Georgia (the "NBG"; the central bank of Georgia) and conducts the business under license number 238.

Tax identification number of the Bank is 201955027 and the registering authority is Didube-Chugureti district court.

As at 31 December 2018 and 2017, the shareholders of the Bank are as follows:

	Ownership %	
Name	**2018**	**2017**
Silk Road Finance JSC	99.99	99.99
Other	0.01	0.01
Total	**100.00**	**100.00**

The Bank is ultimately controlled by Mr Giorgi Ramishvili, a Georgian businessman, who has a number of business interests outside the Bank. Related party transactions are disclosed in Note 18.

(b) Business environment

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

The financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

This is the first set of the Bank's annual financial statements to which IFRS 9 *Financial Instruments and* IFRS 15 *Revenue from Contracts with Customers* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that, Land and Buildings, and investment property which are carried at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Georgian Lari (GEL) as, being the national currency of the Republic of Georgia, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The GEL is also the presentation currency for the purposes of these financial statements.

Financial information presented in GEL is rounded to the nearest thousand.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Applicable to 2018 only
  - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding –Note 3(e)(i).
  - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
- Applicable to 2018 and 2017
  - Loans to customers: impairment allowance estimates – Note 3(e)(iv)
  - land and building revaluation estimate – Note 13

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Applicable to 2018 only
  - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4
- Applicable to 2018 and 2017
  - loans to customers: impairment allowance estimates – Note 3(e)(iv)
  - land and building revaluation estimates – Note 13

(e) Changes in accounting policies and presentation

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to IFRS 9 (see Notes 4 and 5).

A. IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has applied consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(e)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(e)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(e)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

  The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and other comprehensive income.

- The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

B. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts and Related Interpretations*.

The Bank has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15 and the transition did not have effect on the equity of the Bank at 1 January 2018.

3 Significant accounting policies

Except for the changes disclosed in Note 2(e), the Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(e)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes interest on financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost.

(c) Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(b)).

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Taxation

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

i. **Current tax**

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2017, if those earnings are distributed in 2019 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

ii. **Deferred tax**

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.

(e) Financial assets and financial liabilities

i. ***Classification***

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see Note 3(e)(v)).

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

The Bank classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. ***Derecognition***

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iii. ***Modification of financial assets and financial liabilities***

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on derecognition of financial liabilities.

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part

of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(b)).

Financial liabilities

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

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

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

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(e)(ii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3(e)(iv)).

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the

modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv. ***Impairment***

See also Note 4.

Policy applicable from 1 January 2018

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities assets are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

The Bank considers a debt investment security and other financial assets to have low credit risk.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

For retail loans:

- Death of borrower;
- Loans past due more than 90 days;
- Restructuring of the loan, linked with the economic loss;
- Court's decision, which causes the borrower's inability to service its debt obligations;
- Fraud event or misleading information from the borrowers side, that may affect the company's solvency.

For business loans:

- Bankruptcy proceedings of the borrower;
- Loans past due more than 90 days;
- Restructuring of the loan, linked with the economic loss;
- Transferring any of the borrower's loan to Stage 3.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost including undrawn loan commitment on credit cards: as a deduction from the gross carrying amount of the assets;

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal product monitoring system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of profit or loss.

(f) Cash and cash equivalents

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

(g) Loans to customers

Policy applicable from 1 January 2018

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Policy applicable before 1 January 2018

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans to customers included those classified as loans and receivables.

Loans to customers were initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

(h) Investment securities

Policy applicable from 1 January 2018

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, FVTPL or available-for-sale.

Held-to-maturity

Held-to-maturity investments were non-derivative assets with fixed or determinable payments and fixed maturity that the Bank had the positive intent and ability to hold to maturity, and which were not designated as at FVTPL or as available-for-sale.

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that were so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank had collected substantially all of the asset's original principal; and
- sales or reclassifications that were attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(i) Property and equipment

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

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

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

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

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

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

	Years
Buildings	50
Furniture and fixtures	4-10
Computers and office equipment	4-10
Motor vehicles	5
Other	4-10

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

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

(j) Non-current assets held for sale

Bank classify a non-current asset (or disposal group) repossessed property whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Fixed assets held for sale are measured lower of carrying amount and fair value less cost to sell. Subsequent write downs of carrying amount of fixed assets held for sale are recognized as an impairment loss. Gain on the subsequent increase in fair value less cost to sell of a disposal group is recognized not in excess of previously recognized impairment loss.

(k) Share capital

i. Ordinary shares

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

ii. Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Georgia. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(l) Comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the statement of financial position as at 31 December 2017 is as follows:

- "Held-to-maturity investments" were presented within "Investment securities" line item.

The effect of main changes in presentation of the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 is as follows:

- "Interest income" was presented within "Interest income calculated using the effective interest method" line item;
- "Impairment recoveries, net" were presented within "Impairment recoveries on debt financial assets and loan commitments, net" line item.

(m) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 with earlier application permitted; however, the Bank has not early adopted them in preparing these financial statements, with the exception of the amendment to IFRS 9 affecting prepayment features with negative compensation issued in October 2017.

- IFRS 16- *Leases;*
- IFRIC 23 *Uncertainty over Tax Treatments;*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards.*

4 Financial risk review

This note presents information about the Bank's exposure to financial risks. For information on the Bank's financial risk management framework, see Note 18.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(e)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank uses two criteria for determining whether there has been a significant increase in credit risk:

- qualitative indicators; and
- backstop indicator of more than 30 days past due.

Generating the term structure of PD

Consumer loans

Modelling of probability of default of consumer loans is based on the collective analysis method for each segment of loan separately. According to definition of default, probability of default is based on historic monthly migration analysis in accordance with defaults in segments for previous 4 years period. For the segments lacking historical data, the period differs depending on what period there are factual data.

For every segment, historical average monthly matrix was calculated and the probability of default for desired period was defined by extrapolation of the matrix (1 year and whole lifecycle)

Corporate loans

The probability of default for the business loan is evaluated by an individual approach by an expert on a rating system based on a scoring questionnaire.

The country's rating is the base of the probability of basic default that represents a rating and lower bound for the business loan.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. Definition of significant varies for different type of lending in particular between corporate and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on the Bank's quantitative and qualitative modelling. Below are the description of qualitative indicators of significant increase in credit risk

Corporate customers

- Violation of financial or non-financial covenants;
- Legal action to borrower, which may cause significant cash outflow;
- Restructuring of the loan, which is not linked with the economic loss;
- Placing lien or restriction on the bank account of the borrower;
- Delay in providing financial information for 1 year;
- EBITDA < 0 or EBITDA/Debt Payment < 1, compared to previous period;
- Significant deterioration of borrower's financial position, including: loss of contract with main supplier; loss of main customer; forecast of negative cash flow; significant deterioration of profitability

Retail customer

- Restructuring of the loan, which is not linked with the economic loss;
- Increase of Loan-to-Value ratio up to 100%;
- If borrower falls in the debtor registry list;
- Placing lien or restriction on the bank account of the borrower.
- If borrower losses job;

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 (more than 20 days for short-term Silkloan loans) days past due. Days past due are determined by counting the number of days since the earliest missed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns from lifetime ECL to being measured as 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes more than 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Incorporation of forward-looking

In order to evaluate the effect of forward looking macroeconomic information on loan portfolio, PD of the whole loan portfolio was analysed and correlation coefficient between annual average PD of every quarter of last four years and 2 quarters lagged GDP growth rate was calculated. PD-s for every segment were adjusted by GDP forecasts considering the different weights of possible scenarios (optimistic scenario - 25%, base scenario - 50%, pessimistic scenario – 25%) and results were incorporated in the calculation of annual PD by Vasicek's formula.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit

deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. Bank further discounts EAD from default date to the reporting date

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

For the credit loss calculating purposes, the loss of the financial asset defaults is measured. The loss on consumer loans is assessed collectively according to segments and business loans according to individual scenarios.

Collective loss in case of defaults:

To determine the LGD for each segment Bank uses vintage approach. The percentage of recovered portfolio of defaulted loans through its lifetime is derived. Loans are grouped by the default years and repaid exposure is linked to each group. Weighted average effective interest rate is used for discounting for each segment.

Exposure at Default (EAD) represents the expected exposure in the event of a default. The Bank differentiates EAD on a product basis. For Silkloan Plus, Collateralized and Uncolateralized loans EAD is calculated based on average remaining maturity of these products, for every year separately. Bank assumes, that mid-year is the point of default (month 6), meaning that payments were made during first three months (month 3) and exposure becomes overdue starting from fourth month EAD for Credit cards is stated to be 100% of the disbursed amounts. EAD for Silkloan and Silknet Subscriber loan – is 100% of the whole portfolio for the reporting date as these products are short-term by its nature.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

		External benchmarks used
GEL'000	**Exposure as at 31 December 2018**	**PD**
Loans to corporate customers	8,510	Moody's default study

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

GEL'000	2018				2017		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
Loans to customers at amortised cost							
Balance at 1 January	213	168	724	1,105	455	1423	1878
Transfer to Stage 2	(15)	40	(25)	-	-	-	-
Transfer to Stage 3	(31)	(27)	58	-	-	-	-
Net remeasurement of loss allowance	(88)	(110)	463	265	134	139	273
New financial assets originated or purchased	3,039	-	-	3,039	-	-	-
Transfer to Stage 2	(353)	353	-	-	-	-	-
Transfer to Stage 3	(1,723)	-	1,723	-	-	-	-
Write-offs	-	-	(790)	(790)	(213)	(435)	(648)
Balance at 31 December	**1,042**	**424**	**2,153**	**3,619**	**376**	**1,127**	**1,503**

GEL'000	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Loans to customers at amortised cost – corporate customers*					
Balance at 1 January	62	-	154	216	455
Transfer to Stage 3	(14)	-	14	-	-
Net remeasurement of loss allowance	(5)	-	159	154	134
New financial assets originated or purchased	38	-	-	38	-
Write-offs	-	-	(213)	(213)	(213)
Balance at 31 December	**81**	**-**	**114**	**195**	**376**

* As at 1 January 2018, the Bank does not hold credit-impaired loans to corporate customers for which no loss allowance is recognised.

GEL'000	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Loans to customers at amortised cost – retail customers					
Balance at 1 January	151	168	570	889	1,423
Transfer to Stage 2	(15)	40	(25)	-	-
Transfer to Stage 3	(17)	(27)	44	-	-
Net remeasurement of loss allowance	(83)	(110)	304	111	139
New financial assets originated or purchased	3,001	-	-	3,001	-
Transfer to Stage 2	(353)	353	-	-	-
Transfer to Stage 3	(1,723)	-	1,723	-	-
Write-offs	-	-	(577)	(577)	(435)
Balance at 31 December	**961**	**424**	**2,039**	**3,424**	**1,127**

The following table provides a reconciliation between amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument.

GEL'000	Loans to customers at amortised cost - retail customers	Loans to customers at amortised cost - corporate customers	Total
Net remeasurement of loss allowance	154	111	265
New financial assets originated or purchased	38	3,001	3,039
Subtotal	192	3,112	3,304
Recoveries of amounts previously written off	(8)	(363)	(371)
Total	**184**	**2,749**	**2,933**

The significant changes in the gross carrying amount of Loans measured at amortized cost disbursed to corporate and retail customers are further explained below.

	2018			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost				
Balance at 1 January	5,616	542	1,772	7,930
Transfer to Stage 2	(177)	244	(67)	-
Transfer to Stage 3	(1,173)	(126)	1,299	-
New financial assets originated or purchased	15,222			15,222
Transfer to Stage 2	(713)	713	-	-
Transfer to Stage 3	(2,112)	-	2,112	-
Repayments and other movements (including foreign currency revaluations)	(2,293)	(256)	(784)	(3,333)
Write-offs	-	-	(213)	(213)
Balance at 31 December	**14,370**	**1,117**	**4,119**	**19,606**

	2018			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers*				
Balance at 1 January	3,480	-	327	3,807
Transfer to Stage 3	(925)	-	925	-
New financial assets originated or purchased	5,548	-	-	5,548
Repayments and other movements (including foreign currency revaluations)	(549)	-	(83)	(632)
Write-offs	-	-	(213)	(213)
Balance at 31 December	**7,554**	**-**	**956**	**8,510**

	2018			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers				
Balance at 1 January	2,136	542	1,445	4,123
Transfer to Stage 2	(177)	244	(67)	-
Transfer to Stage 3	(248)	(126)	374	-
New financial assets originated or purchased	9,674	-	-	9,674
Transfer to Stage 2	(713)	713	-	-
Transfer to Stage 3	(2,112)	-	2,112	-
Repayments and other movements (including foreign currency revaluations)	(1,744)	(256)	(701)	(2,701)
Balance at 31 December	**6,816**	**1,117**	**3,163**	**11,096**

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2, Stage 3, are included in Note 3(e)(iv).

	31 December 2018			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – corporate customers				
Rated B2	4,907	-	-	4,907
Rated Caa2	2,460	-	-	2,460
Rated Caa3	187	-	-	187
Unrated	-	-	956	956
Total	**7,554**	**-**	**956**	**8,510**
Loss allowance	**(81)**	**-**	**(114)**	**(195)**
Carrying amount	**7,473**	**-**	**842**	**8,315**

GEL'000	31 December 2018 Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost – retail customers				
Silkloan				
Not overdue	2,660	-	-	2,660
Online loans - Overdue less than 20 days	178	-	-	178
Online loans - Overdue 20-60 days	-	217	-	217
Online loans - Overdue more than 60 days	-	-	1,406	1,406
Other retail loans*				
Not overdue	3,686	-	-	3,686
Overdue less than 30 days	292	-	-	292
Overdue 30-60 days	-	234	-	234
Overdue 60-90 days	-	141	-	141
Overdue more than 90 days	-	-	1,234	1,234
Overdue less than 90 (with restructure status)	-	525	-	525
Overdue more than 90 (with restructure status)	-	-	523	523
Total loans to customers gross retail	**6,816**	**1,117**	**3,163**	**11,096**
Loss allowance	**(961)**	**(424)**	**(2,039)**	**(3,424)**
Carrying amount	**5,855**	**693**	**1,124**	**7,672**

* Expected credit losses under IFRS 9 for loans to retail customers include ECL for undrawn loan commitments on credit cards.

At 31 December 2018, the Bank did not hold any financial instruments for which no loss allowance is recognised because of collateral.

During the period, there was no change in the Bank's collateral policies

5. Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets as at 1 January 2018.

GEL'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets					
Cash and cash equivalents	9	Loans and receivables	Amortised cost	15,973	15,973
Amounts due from credit institutions	10	Loans and receivables	Amortised cost	2,273	2,273
Loans to customers	12	Loans and receivables	Amortised cost	6,433	6,831
Investment securities	11	Held to maturity investment	Amortised cost	10,255	10,255
Other financial asset		Loans and receivables	Amortised cost	348	348
Total financial assets				**35,282**	**35,680**
Financial liabilities					
Current accounts and deposits from customers	14	Amortised cost	Amortised cost	15,463	15,463
Subordinated borrowings	15	Amortised cost	Amortised cost	9,076	9,076
Other financial liabilities		Amortised cost	Amortised cost	371	371
Total financial liabilities				**24,910**	**24,910**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

GEL'000	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents:	15,973	-	-	15,973
Amounts due from credit institutions	2,273	-	-	2,273
Loans to customers:				
Opening balance	6,433	-	-	-
Remeasurement	-	-	398	-
Closing balance	-	-	-	6,831
Investment securities:	10,255	-	-	10,255
Other financial asset	348	-	-	348
Total amortised cost	**35,282**	**-**	**398**	**35,680**

As a result of adoption of IFRS 9 there were no reclassification or remeasurement of financial liabilities.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings. There is no impact on other components of equity.

GEL'000	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	(2,263)
Recognition of expected credit losses under IFRS 9 for loans to customers	398
Opening balance under IFRS 9 (1 January 2018)	**(1,865)**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowance and provisions			
GEL'000	31 December 2017 (IAS 39)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
Loans to customers	1,503	-	(398)	1,105
Total measured at amortised cost	**1,503**	**-**	**(398)**	**1,105**

6 Net interest income calculated using the effective interest method

	2018 GEL'000	2017 GEL'000
Interest income		
Loans co customers	2,915	1,008
Investment securities	863	1,346
Other	459	456
	4,237	**2,810**
Interest expense		
Current accounts and deposits from customers	228	628
Subordinated borrowing	359	3
	587	**631**

7 General administrative expenses

	2018 GEL'000	2017 GEL'000
Legal and consultancy	1,283	729
Depreciation and amortization expense	560	601
Occupancy and rent	444	297
Office supplies	440	349
Advertising Expenses	357	121
Operating taxes	238	221
Insurance	32	126
Security	84	85
Loss on disposal of property and equipment	64	13
Repair and maintenance of property and equipment	33	29
Other	102	194
	3,637	**2,765**

8 Income tax benefit

	2018 GEL'000	2017 GEL'000
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	528	39
Total income tax benefit	**528**	**39**

In 2018, the applicable tax rate for current and deferred tax is 15% (2017: 15%).

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

	2018 GEL'000	%	2017 GEL'000	%
Loss before tax	(5,215)		(4,259)	
Income tax at the applicable tax rate	(783)	15	(639)	15
Effect of change in income tax legislation	22	-	256	(6)
Change in unrecognised differed tax assets	377	(7)	304	(7)
Non-deductible differences	(144)	3	40	(1)
Change in unrecognised deferred tax asset	**(528)**	**11**	**(39)**	**1**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liability as at 31 December 2018 and net deferred tax liabilities as at 31 December 2017.

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows:

2018 GEL'000	31 December 2017	Recognised in equity	Recognized in profit or loss	31 December 2018
Property and equipment	(236)	(383)	311	(308)
Loans to customers	(91)	-	191	100
Assets held for sale	-	-	45	45
Other liability	48	-	(19)	29
	(279)	**(383)**	**528**	**(134)**

2017 GEL'000	1 January 2017	Recognised in equity	Recognized in profit or loss	31 December 2017
Property and equipment	(187)	(47)	(2)	(236)
Loans to customers	(87)	-	(4)	(91)
Other liability	3	-	45	48
	(271)	**(47)**	**39**	**(279)**

9 Cash and cash equivalents

	2018 GEL'000	2017 GEL'000
Cash on hand	5,052	3,079
Current accounts with National Bank of Georgia excluding obligatory reserves	1,580	500
Nostro accounts with other Banks		
Rated BB- to BB+	6,183	10,030
Rated below B+	258	163
Total nostro accounts with other banks	**13,073**	**13,772**
Cash equivalents		
Term deposit	7,000	2,201
Total cash and cash equivalents	**20,073**	**15,973**

No cash and cash equivalents are past due. As at 31 December 2018 the Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (1 January 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

10 Amounts due from credit institution

	2018 GEL'000	2017 GEL'000
Obligatory reserve with National Bank of Georgia (NBG)	2,183	2,273
Total amounts due from credit institution	**2,183**	**2,273**

In 2018 the credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG at 5% and at 25% of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively.

As at 31 December 2018 the Bank allocates amounts due from credit institution under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (1 January 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

11 Investment securities

	2018 GEL'000	2017 GEL'000
Government treasury bonds	13,637	10,255
Total investment securities measured at amortized cost	**13,637**	**10,255**

	31 December 2018		31 December 2017	
	Nominal interest rate, %	Maturity	Nominal interest rate, %	Maturity
Debt securities with the Ministry of Finance of Georgia	8.1 – 11.25	2019 - 2028	6.77 – 15.02	2018 - 2020

No investment securities are past due or impaired. As at 31 December 2018 the Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (1 January 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

12 Loans to customers

	2018 GEL'000	2017 GEL'000
Loans to corporate customers		
Loans to corporate customers	8,510	3,807
Total loans to corporate customers	**8,510**	**3,807**
Loans to retail customers		
Consumer lending - uncollateralized	524	301
Consumer lending - collateralized	1,149	2,218
Credit cards	1,397	111
Silkloan	4,461	1,494
Silkloan Plus	3,565	5
Total Loans to retail customers	**11,096**	**4,129**
Total gross loans to customers	**19,606**	**7,936**
Loss allowance	(3,619)	(1,503)
Net loans to customers	**15,987**	**6,433**

Movements in the credit loss allowance of loans to customers measured at amortized cost for the year ended 31 December 2018 are as follows:

	Loans to corporate customers GEL'000	Loans to retail customers GEL'000	Total GEL'000
Balance at the beginning of the year	376	1,127	1,503
Adjustment on initial application of IFRS 9	(160)	(238)	(398)
Restated balance as at 1 January	**216**	**889**	**1,105**
Net charge	184	2,749	2,933
Write-offs	(213)	(577)	(790)
Recovery	8	363	371
Balance at the end of the year	**195**	**3,424**	**3,619**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

	Loans to corporate customers GEL'000	Loans to retail customers GEL'000	Total GEL'000
Balance at the beginning of the year	455	1,423	1,878
Net charge	134	139	273
Write-offs	(213)	(435)	(648)
Balance at the end of the year	**376**	**1,127**	**1,503**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2018 and 31 December 2017:

	31 December 2018				31 December 2017
	Stage 1 GEL'000	Stage 2 GEL'000	Stage 3 GEL'000	Total loans GEL'000	Total loans GEL'000
Loans to corporate customers					
Loans without individual signs of impairment	7,554	-	-	7,554	3,484
Rated B2	*4,907*			*4,907*	-
Rated Caa2	*2,460*			*2,460*	-
Rated Caa3	*187*			*187*	-
Overdue or impaired loans:					
- Impaired loan	-	-	956	956	323
Total overdue or impaired loans	-	-	956	956	323
Total loans to corporate customers, gross	**7,554**	**-**	**956**	**8,510**	**3,807**
Loss allowance	(81)	-	(114)	(195)	(380)
Total loans to corporate customers	**7,473**	**-**	**842**	**8,315**	**3,427**
Loans to retail customers					
Silkloan					
- not overdue	2,660	-	-	2,660	1,285
- overdue less than 20 days	178	-	-	178	53
- overdue 21-60 days	-	217	-	217	106
- overdue more than 60 days	-	-	1,406	1,406	50
Total Silkloan, gross	**2,838**	**217**	**1,406**	**4,461**	**1,494**
Loss allowance	(186)	(139)	(1,042)	(1,367)	(145)
Total Silkloan	**2,652**	**78**	**364**	**3,094**	**1,349**
Silkloan Plus					
- not overdue	2,275	-	-	2,275	5
- overdue less than 30 days	193	-	-	193	-
- overdue 31-60 days	-	103	-	103	-
- overdue 61-90 days	-	88	-	88	-
- overdue more than 90 days	-	-	707	707	-
- Overdue less than 90 (restructured)	-	201	-	201	-
Total Silkloan Plus, gross	**2,468**	**392**	**707**	**3,567**	**5**
Loss allowance	(450)	(155)	(524)	(1,129)	-
Total Silkloan Plus	**2,018**	**237**	**183**	**2,438**	**5**
Retail – collaterized					
- not overdue	197	-	-	197	241
- overdue less than 30 days	-	-	-	-	214
- overdue 31-60 days	-	83	-	83	64
- overdue 61-90 days	-	-	-	-	62
- overdue more than 90 days	-	-	291	291	958
- overdue less than 90 (restructure)	-	300	-	300	284
- overdue more than 90 (restructured)	-	-	278	278	395
Total retail – collaterized, gross	**197**	**383**	**569**	**1,149**	**2,218**
Loss allowance	(6)	(55)	(129)	(190)	(900)
Total retail – collaterized	**191**	**328**	**440**	**959**	**1,318**
Retail - uncollaterized					
- not overdue	446	-	-	446	227
- overdue less than 30 days	1	-	-	1	-
- overdue more than 90 days	-	-	39	39	6
- overdue less than 90 (restructured)	-	23	-	23	33
- overdue more than 90 (restructured)	-	-	14	14	35
Total retail – uncollaterized, gross	**447**	**23**	**53**	**523**	**301**
Loss allowance	(18)	(7)	(28)	(53)	(76)
Total retail – uncollaterized	**429**	**16**	**25**	**470**	**225**
Plastic card plus					
- not overdue	771	-	-	771	95
- overdue less than 30 days	97	-	-	97	14
- overdue 31-60 days	-	49	-	49	1
- overdue 61-90 days	-	52	-	52	-
- overdue more than 90 days	-	-	428	428	1
Total plastic card plus, gross	**868**	**101**	**428**	**1,397**	**111**
Loss allowance	(300)	(69)	(317)	(686)	(2)
Total plastic card plus	**568**	**32**	**111**	**711**	**109**
Total loans to retail customers, gross	**6,818**	**1,116**	**3,163**	**11,097**	**4,129**
Loss allowance	**(960)**	**(425)**	**(2,040)**	**(3,425)**	**(1,123)**
Total loans to retail customers	**5,858**	**691**	**1,123**	**7,672**	**3,006**
Grand total of carrying amount of loans to customers	**13,331**	**691**	**1,965**	**15,987**	**6,433**

* Silkloan is the payday without collateral loan with the maximum amount of 1,200 GEL with the original maturity of one month and an option to extend for an additional month.

Silkloan Plus is the instalment loan without collateral with the maximum amount of 3,000 GEL and maturity from 12 to 24 months.

(b) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2018 GEL'000	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date
Loans without individual signs of impairment			
Real estate	6,028	-	6,028
Inventory	1,445	-	1,445
Total loans without individual signs of impairment	**7,473**	**-**	**7,473**
Overdue or impaired loans			
Real estate	842	-	842
Total overdue or impaired loans	**842**	**-**	**842**
Total loans to corporate customers	**8,315**	**-**	**8,315**

31 December 2017 GEL'000	Loans to customers, carrying amount	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date
Loans without individual signs of impairment			
Real estate	2,066	-	2,066
Inventory	1,192	-	700
Movable property	113	-	67
Total loans without individual signs of impairment	**3,371**	**-**	**2,833**
Overdue or impaired loans			
Real estate	56	-	56
Total overdue or impaired loans	**56**	**-**	**56**
Total loans to corporate customers	**3,427**	**-**	**2,889**

The tables above exclude overcollateralization.

The Bank has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, all collateral that are relevant for impairment assessment are disclosed.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

During the period, there was no change in the Bank's collateral policies.

(ii) Loans to retail customers

The major part of the retail collateralized loans are secured by real estate.

(iii) Assets held for sale

As at 31 December 2018 and 2017, assets held for sale comprise from repossessed collateral:

	2018 GEL'000	2017 GEL'000
Real estate	4,918	5,806
Total repossessed collateral	**4,918**	**5,806**

In 2018 assets held for sale balances have been written down to fair value less cost to sale of GEL 1,452 thousand recognised in statement of profit or loss and other comprehensive income as impairment loss on the assets held for sale (2017: GEL 1,683 thousand).

The Bank's policy is to sell these assets as soon as it is practicable.

(c) Key assumptions and judgments for estimating loan impairment

Key assumptions used by the Bank in estimation of the expected credit loss on loans to customers are as follows:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

Change in these estimate by 10% increase/decrease could affect the expected credit loss on loans to customers for 2018 as follows:

- probability of default (PD) – GEL 128 thousand;
- loss given default (LGD) – GEL 314 thousand;
- exposure at default (EAD) – GEL 232 thousand.

(d) Significant credit exposures

As at 31 December 2018 and 2017, the Bank has no borrowers or groups of connected borrowers, whose net loan balances exceed 10% of equity.

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 20(c)(iv), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Property and equipment

GEL'000	Land and building	Leasehold improvements	Computer and communication equipment	Fixtures and fittings	Motor vehicles	Other	Total
Cost/revalued amount							
Balance at 1 January 2018	15,893	1,446	971	162	-	820	19,292
Additions	-	6	14	-	-	1	21
Disposals	-	(52)	(10)	-	-	(69)	(131)
Effect of revaluation	2,139	-	-	-	-	-	2,129
Balance at 31 December 2018	**18,032**	**1,400**	**975**	**162**	**-**	**752**	**21,321**
Depreciation							
Balance at 1 January 2018	-	1,297	888	161	-	696	3,042
Depreciation for the year	351	84	49	1	-	46	531
Disposals	-	(52)	(10)	-	-	(28)	(90)
Effect of revaluation	(351)	-	-	-	-	-	(351)
Balance at 31 December 2018	**-**	**1,329**	**927**	**162**	**-**	**714**	**3,132**
Balance at 1 January 2017	15,961	1,525	1,105	208	390	933	20,122
Additions	-	11	1	-	-	-	12
Disposals	(38)	(90)	(122)	(46)	(390)	(113)	(799)
Write off	-	-	(13)	-	-	-	(13)
Effect of revaluation	(30)	-	-	-	-	-	(30)
Balance at 31 December 2017	**15,893**	**1,446**	**971**	**162**	**-**	**820**	**19,292**
Depreciation							
Balance at 1 January 2017	-	1,283	949	198	214	759	3,403
Depreciation for the year	345	104	51	9	-	46	555
Disposals	-	(90)	(112)	(46)	(214)	(133)	(595)
Effect of revaluation	(345)	-	-	-	-	-	(345)
Balance at 31 December 2017	**-**	**1,297**	**888**	**161**	**-**	**672**	**3,018**
Carrying amount							
At 31 December 2017	**15,893**	**149**	**83**	**1**	**-**	**148**	**16,274**
At 31 December 2018	**18,032**	**71**	**48**	**-**	**-**	**38**	**18,189**

(a) Revalued assets

In 2018 management commissioned Baker Tilly Georgia LLC to independently appraise land and building as at 31 December 2018 which, in accordance with the Bank's accounting policy, is measured at fair value.

The fair value of land and building was determined to be GEL 18,022 thousand and reflects market prices in recent transactions.

Land and buildings are categorized within level 3 of fair value hierarchy.

The basis used for the appraisal is the market approach which is based on an analysis of the results of comparable sales of similar land and buildings.

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

	2018 GEL'000	2017 GEL'000
Cost	20,131	20,131
Accumulated depreciation	(5,861)	(5,458)
Net carrying amount	**14,270**	**14,673**

14 Current accounts and deposits from customers

	2018 GEL'000	2017 GEL'000
Current accounts	10,052	8,904
Time deposits	2,840	6,559
	12,892	**15,463**

As at 31 December 2018 amounts due to customers of GEL 8,728 thousand (68% of total current accounts and deposits from customers balance) were due to ten largest customers (2017: GEL 8,286 thousand (54%)).

As at 31 December 2018 and 2017, the Bank has no customers, whose balances exceed 10% of equity.

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

	2018 GEL'000	2017 GEL'000
Individuals:		
- Term deposits	2,322	5,593
- Current accounts	2,169	2,445
Total due to individuals	4,491	8,038
Commercial legal entities:		
- Current/settlement accounts	7,884	6,459
- Term deposits	517	966
Total due to commercial legal entities	8,401	7,425
Total amounts due to customers	**12,892**	**15,463**

An analysis of customer accounts by economic sector follows:

	2018 GEL'000	2017 GEL'000
Individuals	4,503	8,038
Trade and service	6,318	3,749
Transportation and communication	525	600
Construction	359	191
Agriculture	17	51
Other	1,170	2,834
Amounts due to customers	**12,892**	**15,463**

15 Subordinated borrowings

	2018 GEL'000	2017 GEL'000
Silk Road Finance JSC	-	9,076
	-	**9,076**

Subordinated borrowings were obtained from Silk Road Finance JSC on 28 December 2017. Subordinated borrowing bears 5% interest rate and matures on 28 December 2023.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2018 GEL'000	2017 GEL'000
Carrying amount as at 1 January	9,076	9,060
Foreign currency (gain)/loss	(86)	16
Interest expense	358	-
Interest repayment	(358)	-
Repayment of principal	(8,990)	-
Balance at 31 December 2017	**-**	**9,076**

16 Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2018, share capital of the Bank comprised 611,464 of authorized fully paid shares with nominal value GEL 100 each (2017: 300,000 authorized fully paid shares with the nominal value 100 GEL each)

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

(b) Nature and purpose of reserves

Revaluation surplus for property and equipment

The revaluation surplus for property and equipment comprises the cumulative positive revalued value of property and equipment after depreciation transfer to retained earnings, until the assets are derecognised or impaired.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to Georgia legislation.

17 Contingencies

(a) Litigation

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

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

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

18 Related party transactions

(a) Control relationships

The Bank's parent Company is Silk Road Finance JSC (Tbilisi, Georgia), which owns 99.99 % of the share capital. No publicly available financial statements are produced by the Bank's parent companies.

The Bank's ultimate controlling party is Georgian businessman Giorgi Ramishvili.

(b) Related party transactions

Total remuneration included in personnel expenses for the years ended 31 December 2018 and 2017 is as follows:

	2018 GEL'000	2017 GEL'000
Short-term employee benefits	374	362

The outstanding balances and average effective interest rates as at 31 December 2018 and 2017 for related party transactions are shown below:

	2018 GEL'000	Average effective interest rate, %	2017 GEL'000	Average effective interest rate, %
Statement of financial position				
Loans issued net carrying amount				
Fellow subsidiary	6,337	10 %	1,018	12%
Close family members of management and ultimate controlling party	1,142	12%	1,471	12%
Key management personnel	14	18%	23	20%
Current accounts and deposits from customers				
Fellow subsidiary	3,985	0.87%	3,368	0.1%
Close family members of management and ultimate controlling party	563	-	1,401	-
Key management personnel	50	0.09%	104	0.02%
Subordinated debt				
Parent	-	-	9,076	5%

Loans issued to related parties are secured with the collateral with the loan to value ratio of less than 100%. Impairment allowance as at 31 December 2018 and 31 December 2017 on loans issued to related parties is immaterial.

Amounts included in profit or loss in relation to transactions with related parties for the year ended 31 December are as follows:

	2018 GEL'000	2017 GEL'000
Profit or loss		
Interest income	446	326
Interest expense	409	50

19 Fair values of financial instruments

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments as at 31 December 2018 and 31 December 2017 approximate their carrying amounts.

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

20 Risk management

(a) Corporate governance, internal control policies and procedures

The Bank is required to manage financial risks that arise as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Bank's statement of financial position. These risks primarily include credit risk, liquidity risk and funding management, market risk, prepayment risk and operational risk.

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 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

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. Currently risk is monitored by the following units with the Management Board –

- credit risk is managed by the Credit Risk Committees;
- liquidity risk is managed by ALCO;
- market risk is managed by ALCO;
- Operational risk is managed by the Operational Risk Management Department.

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

(b) 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 through a control framework and by monitoring and responding to potential risks, the Bank is able 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.

(c) 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. Except for the concentrations within foreign currency and prepayment risks, the Bank has no significant concentration of market

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

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

	2018			2017		
	Within one year	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Financial assets						
Cash and cash equivalents	15,021	-	15,021	12,894	-	12,894
Amounts due from credit institutions	2,183	-	2,183	2,273	-	2,273
Loans to customers	8,233	7,754	15,987	2,669	3,764	6,433
Investment securities:	1,492	12,145	13,637	7,707	2,548	10,255
Other financial assets	348	-	348	347	1	348
Total	**27,277**	**19,899**	**47,176**	**25,890**	**6,313**	**32,203**
Financial liabilities						
Subordinated debt	-	-	-	-	(9,076)	(9,076)
Amounts due to customers	(10,817)	(2,075)	(12,892)	(10,802)	(4,660)	(15,462)
Other financial liabilities	(371)	-	**(371)**	(371)	-	**(371)**
Total	**(11,188)**	**(2,075)**	**(13,263)**	**(11,173)**	**(13,736)**	**(24,909)**
Net exposure	**16,089**	**17,824**	**33,913**	**14,717**	**(7,423)**	**7,294**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2018 Average effective interest rate, %			2017 Average effective interest rate, %		
	GEL	USD	Other currencies	GEL	USD	Other currencies
Interest bearing assets						
cash and cash equivalents	7%	1%	1%	7%	1%	-
Loans to customers	44%	12%	-	39%	20%	-
Investment securities	9%	-	-	13%	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	5.5%	1.5%	2%	7%	4%	1%
Subordinated borrowings	-	-	-	-	5%	-

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2018 and 2017, is as follows:

	2018 GEL'000	2018 GEL'000
100 bp parallel fall	(288)	(62)
100 bp parallel rise	288	62

ii. Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

	USD GEL'000	EUR GEL'000	Total GEL'000
ASSETS			
Cash and cash equivalents	9,503	2,090	11,593
Amounts due from credit institutions	5,427	-	5,427
Loans to customers	1,481	702	2,183
Other financial assets	257	-	257
Total assets	**16,668**	**2,792**	**19,460**
LIABILITIES			
Current accounts and deposits from customers	(6,560)	(2,778)	(9,338)
Other financial liabilities	(150)	-	(150)
Total liabilities	**(6,710)**	**(2,778)**	**(9,488)**
Effect of foreign currency forward contract*	**(9,900)**	**-**	**(9,900)**
Net position	**58**	**14**	**72**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

	USD GEL'000	EUR GEL'000	Total GEL'000
ASSETS			
Cash and cash equivalents	11,431	996	12,427
Loans to customers	3,178	-	3,178
Amounts due from credit institutions	2,164	149	2,313
Other financial assets	289	-	289
Total assets	**17,062**	**1,145**	**18,207**
LIABILITIES			
Current accounts and deposits from customers	(9,792)	(1,244)	(11,036)
Subordinated borrowings	(9,073)	-	(9,073)
Other financial liabilities	(65)	-	(65)
Total liabilities	**(18,930)**	**(1,244)**	**(20,174)**
Effect of foreign currency forward contract*	**1,814**	-	**1,814**
Net position	**54**	**(99)**	**(45)**

* The table below shows the fair values of foreign currency forward contract recorded in other assets (31 December 2017: other liabilities) together with their notional amounts. The notional amount, recorded gross, is the amount of a financial instrument's underlying asset or liability, reference rate and is the basis upon which changes in the value of financial instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2018		31 December 2017	
GEL'000	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Foreign currency forward contract				
Sell USD buy GEL	9,900	202	-	-
Buy USD sell GEL	-	-	1,814	5

The following significant exchange rates have been applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD 1	2.5345	2.5086	2.6766	2.5922
EUR 1	2.9913	2.8322	3.0701	3.1044

A weakening of the GEL, as indicated below, against the following currencies at 31 December 2018 and 2017, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 GEL'000	2017 GEL'000
10% appreciation of USD against GEL	5	5
10% appreciation of EUR against GEL	1	(8)

A strengthening of the GEL against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

iii. 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. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

The Bank established 1 level of credit committee which is responsible for approving credit limits for individual borrowers.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Due to relatively small size of the Bank's operations during the year credit risk exposure is monitored by the Management Board.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2018 GEL'000	2017 GEL'000
ASSETS		
Cash and cash equivalents	15,021	12,894
Amounts due from credit institutions	2,183	2,273
Loans to customers	15,987	6,433
Investment securities	13,637	10,255
Other financial assets	348	348
Total maximum exposure	**47,176**	**32,203**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, see Note 12.

iv. Liquidity risk

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. To limit this risk, the Bank's Management 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 state securities that can be pledged to the NBG to obtain financing in the event of demand.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratio established by National Bank of Georgia. The NBG requires banks to maintain liquidity ratio of more than 30%. As at 31 December 2018 and 2017 the ratio was as follows:

	2018	2017
LK "Average Liquidity Ratio" (average monthly volume of liquid assets / average monthly volume of liabilities)	153.24%	108.21%

The following tables show the undiscounted cash flows on financial assets, liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability.

The maturity analysis for financial assets and liabilities as at 31 December 2018 is as follows:

GEL'000	On demand and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Cash and cash equivalents	15,021	-	-	-	-	15,021	15,021
Amounts due from credit institutions	2,183	-	-	-	-	2,183	2,183
Investment securities	489	1,049	618	9,357	9,390	20,903	13,637
Loans to customers	8,924	906	3,103	6,915	4,961	24,809	15,987
Other financial asset	348	-	-	-	-	348	348
Total financial assets	**26,965**	**1,955**	**3,721**	**16,272**	**14,351**	**63,264**	**47,176**
Current accounts and deposits from customers	(11,604)	(486)	(248)	(640)	-	(12,978)	(12,892)
Other financial liabilities	(371)	-	-	-	-	(371)	(371)
Total financial liabilities	**(11,975)**	**(486)**	**(248)**	**(640)**	-	**(13,349)**	**(13,263)**
Net liquidity gap on recognised financial assets and liabilities	**14,990**	**1,469**	**3,473**	**15,632**	**14,351**	**49,915**	**33,913**

The maturity analysis for financial assets and liabilities as at 31 December 2017 is as follows:

GEL'000	On demand and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total gross amount inflow (outflow)	Carrying amount
Cash and cash equivalents	12,894	-	-	-	-	12,894	12,894
Amounts due from credit institutions	2,273	-	-	-	-	2,273	2,273
Loans to customers	6,159	337	987	2,885	566	10,934	6,433
Investment securities	7,731	12	407	2,253	850	11,253	10,255
Other financial asset	348	-	-	-	-	348	348
Total financial assets	**29,405**	**349**	**1,394**	**5,138**	**1,416**	**37,702**	**32,203**
Amounts due to credit institutions	(10,906)	(3,280)	(1,074)	(308)	-	(15,568)	(15,463)
Subordinated borrowings	-	-	-	(11,770)	-	(11,770)	(9,076)
Other financial liabilities	(371)	-	-	-	-	(371)	(371)
Total financial liabilities	**(11,277)**	**(3,280)**	**(1,074)**	**(12,078)**	-	**(27,709)**	**(24,910)**
Net liquidity gap on recognised financial assets and liabilities	**18,128**	**(2,931)**	**320**	**(6,940)**	**1,416**	**9,993**	**7,293**

21 Capital adequacy

According to the NBG regulations about capital adequacy (Decree N100/04) on 18 December 2017 the minimum capital requirement ratios have been revised. As at 31 December 2018 Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Total Capital ratios is set at 4.50%, 6.00% and 8.00%, respectively. Capital Conservation and Countercyclical buffers were set at 2.50% and 0%, respectively.

As at 31 December 2018, the Bank had to maintain the currency induced credit risk (CICR) buffer of 0.55% (2017: 0.27%), Risk buffer for credit portfolio concentration of 4.18% (2017: nil) and net GRAPE buffer of 14.4% (2017: nil). All the rest Pillar II buffers were to preserve at nil percent (2017: nil). Under total Basel III requirements the Bank was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 29.63%, 10.09% and 12.63%, respectively (2017: 10.77%, 7.15% and 8.71%, respectively). The Bank was in compliance with these capital adequacy ratios as at 31 December 2018 and as at 31 December 2017.

The calculation of the capital adequacy ratios in accordance with the NBG accounting rules and capital adequacy Basel III framework for 31 December 2017 and 31 December 2018:

GEL'000	2018	2017
Tier 1 capital	50,381	22,237
Supplementary capital	244	9,132
Total regulatory capital	**50,625**	**31,369**
Risk weighted assets	**55,931**	**46,023**
Regulatory capital ratio	90.51%	68.16%
Common Equity Tier 1 capital adequacy ratio / tier 1 capital adequacy ratio	90.08%	48.32%

22 Subsequent events

- Irakli Managadze has been appointed as a chairman of Bank's Supervisory Board at 28th of February, 2019

- Eli Enoch has been appointed as Chief Executive Officer of the Bank at 1st of April, 2019.