JSC Silk Bank
Financial Statements for 2022

Contents

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Independent Auditors' Report

To the Shareholders and Board of Directors of JSC Silk Bank

Opinion

We have audited the financial statements of JSC Silk Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2022, 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 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management Report

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

In connection with our audit of the financial statements, our responsibility is to read the Management Report 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.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

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

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 Standards, 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:

Natia Tevzadze

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KPMG Georgia LLC
Tbilisi, Georgia
5 May 2023

GEL'000	Notes	2022	2021
Interest income calculated using the effective interest method	5	5,962	5,372
Interest expense	5	(2,521)	(2,038)
Net interest income		**3,441**	**3,334**
Fee and commission income		187	555
Fee and commission expense		(98)	(141)
Net fee and commission income		**89**	**414**
Net gain from foreign currency dealings and forward contracts	21	1,268	2,532
Net foreign currency revaluation loss		(1,229)	(1,209)
Impairment reversal on debt financial assets and loan commitments, net	4	469	485
Impairment reversal on assets held for sale		33	26
Net (loss)/gain from disposal of assets held for sale		(44)	16
General administrative expenses	6	(3,789)	(3,261)
Salaries and employment benefits expenses	7	(3,794)	(3,002)
Other income/(expenses)		167	(309)
Loss before income tax		**(3,389)**	**(974)**
Income tax (expense)/benefit	8	(537)	55
Loss for the year		**(3,926)**	**(919)**
Other comprehensive loss			
Items that will never be reclassified to profit or loss			
Revaluation of land and buildings	13	(1,168)	(629)
Income tax relating to components of other comprehensive income		(1,121)	-
Total other comprehensive loss		**(2,289)**	**(629)**
Total comprehensive loss		**(6,215)**	**(1,548)**

The financial statements as set out on pages 9 to 51 were approved by management on 5 May 2023 and were signed on its behalf by:

Aleksi Khoroshvili
Chief Executive Officer

Beka Kvezereli
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.

GEL'000	**Notes**	**31 December 2022**	**31 December 2021**
ASSETS			
Cash and cash equivalents	9	10,847	14,139
Amounts due from credit institutions	10	1,516	2,278
Investment securities	11	32,185	40,845
Loans to customers	12	18,797	14,938
Property and equipment	13	19,309	20,680
Intangible assets		278	241
Assets held for sale	12	3,286	3,512
Other assets	21	1,538	994
Total assets		**87,756**	**97,627**
LIABILITIES			
Loans from credit institutions	15	10,027	23,258
Current accounts and deposits from customers	14	12,357	7,702
Subordinated debts	16	2,879	2,501
Certificate of deposits	15	1,881	1,873
Deferred tax liabilities	8	1,752	94
Other liabilities		1,870	794
Total liabilities		**30,766**	**36,222**
EQUITY	17		
Share capital		62,946	61,146
Reserves		4,356	6,802
Accumulated loss		(10,312)	(6,543)
Total equity		**56,990**	**61,405**
Total liabilities and equity		**87,756**	**97,627**

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

GEL'000	**Notes**	**2022**	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(3,926)	(919)
Adjustments for:			
Forward exchange contracts		414	1,775
Net foreign currency revaluation loss		1,229	1,209
(Gain)/loss on disposal of property and equipment		(49)	745
Depreciation and amortisation		720	581
Net interest income		(3,441)	(3,334)
Net impairment reversal on loans and advances		(383)	(482)
Tax expense/(income)		537	(55)
Impairment reversal on assets held for sale		(33)	(26)
Net (gain)/loss from disposal of assets held for sale		44	(16)
Net impairment reversal on investment securities		(86)	(3)
		(4,974)	**(525)**
Changes in:			
Current accounts and deposits from customers		5,767	904
Amounts due from credit institutions		597	(1,178)
Other liabilities and provisions		492	(1,766)
Assets held for sale		215	270
Loans to customers		(4,204)	(3,847)
Other assets		(1,383)	(200)
		(3,490)	**(6,342)**
Interest received		6,187	5,554
Interest paid		(2,562)	(1,992)
Net cash flows from/(used in) operations		**135**	**(2,780)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from repayment of investment securities		8,500	1,000
Proceeds from sale of property and equipment		203	2,214
Acquisition of property and equipment		(586)	(3,987)
Acquisition of intangible assets		(122)	(269)
Net cash flows from/(used in) investing activities		**7,995**	**(1,042)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans from credit institutions	15	123,944	316,423
Proceeds from issue of share capital		1,800	-
Proceeds from subordinated debts		375	2,500
Repayment of loans from credit institutions	15	(137,165)	(305,703)
Net cash flows (used in)/from financing activities		**(11,046)**	**13,220**
Net (decrease)/increase in cash and cash equivalents		**(2,916)**	**9,398**
Cash and cash equivalents as at the beginning of the year		14,139	5,631
Effect of changes in exchange rates on cash and cash equivalents		(376)	(890)
Cash and cash equivalents as at the end of the year	**9**	**10,847**	**14,139**

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**	**Accumulated loss**	**Total equity**
Balance as at 1 January 2021	**61,146**	**9,641**	**(7,834)**	**62,953**
Total comprehensive income				
Loss for the year	-	-	(919)	(919)
Other comprehensive income				
Revaluation of land and buildings	-	(629)	-	(629)
Transfer of revaluation reserve of disposed property	-	(2,210)	2,210	-
Total other comprehensive income	**-**	**(2,839)**	**2,210**	**(629)**
Total comprehensive income	**-**	**(2,839)**	**1,291**	**(1,548)**
Balance as at 31 December 2021	**61,146**	**6,802**	**(6,543)**	**61,405**
Balance as at 1 January 2022	**61,146**	**6,802**	**(6,543)**	**61,405**
Total comprehensive loss				
Loss for the year	-	-	(3,926)	(3,926)
Other comprehensive loss				
Revaluation of land and buildings	-	(1,168)	-	(1,168)
Deferred tax effect	-	(1,121)	-	(1,121)
Transfer of revaluation reserve of disposed property	-	(21)	21	-
Depreciation of revaluation reserve	-	(136)	136	-
Total other comprehensive loss	**-**	**(2,446)**	**157**	**(2,289)**
Total comprehensive loss	**-**	**(2,446)**	**(3,769)**	**(6,215)**
Transactions with owners, recorded directly in equity				
Shares issued	1,800	-	-	1,800
Total transactions with owners	**1,800**	**-**	**-**	**1,800**
Balance as at 31 December 2022	**62,946**	**4,356**	**(10,312)**	**56,990**

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 Bank (the "Bank") is a Georgian joint stock company. On 12 September 2022, the Bank was renamed from JSC Silk Road Bank to JSC Silk Bank.

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, Zaarbriukeni 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 2022 and 2021, the shareholders of the Bank are as follows:

	Ownership %	
Name	**2022**	**2021**
Silk Road Group Holding (Malta) Limited	60.00	61.76
Partomta LLC	37.14	38.23
Silk Holding JSC	2.85	-
Other	0.01	0.01
Total	**100**	**100**

On 22 November 2022, the Bank issued 18,000 ordinary shares with a nominal value of 100 Georgial Lari (GEL) each. Issued shares were purchased by Silk Holding JSC.

On 12 November 2021, Partomta LLC (controlled by Yerkin Tatishev) purchased 38.23% shares of the Bank from Silk Road Group Holding (Malta) Limited.

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 19.

(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.

In February 2022, because of the war between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry. Georgia's economy was also affected by the mentioned events and is subject to future uncertainties in economy as described; on the other hand, single digit growth of Georgian economy is forecasted in 2023, driven by higher export and tourism revenues and strong private consumption.

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 IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except derivative financial instruments and land and buildings, which are carried at fair value and assets held for sale, which are stated at lower of carrying value and fair value less costs to sell.

(c) Going Concern

The financial statements have been prepared on a going concern basis notwithstanding that the Bank has reported loss of GEL 3,926 thousand for the year ended 31 December 2022 (2021: loss of GEL 919 thousand) and was in breach of minimum regulatory capital requirement of GEL 50,000 thousand imposed by the NBG till August 2021 (respective waiver was received from NBG till 31 December 2021).

In 2022 and 2021 the Bank has increased the regulatory capital by receiving GEL 1,800 thousand fresh capital contribution from new shareholder Silk Holding JSC (see Note 17) and GEL 2,875 thousand subordinated debt from the shareholder (Silk Road Group Holding (Malta) Limited) (see Note 16) to comply with the minimum regulatory capital requirement of GEL 50,000 thousand. As at 31 December 2022, 2021 and as at the date these financial statements were authorised for issue, the Bank is in compliance with the regulatory requirements (see Note 22).

Maintaining the minimum regulatory capital in the foreseeable future depends on the Bank's future performance. Although the Bank is currently loss-making, in 2022 the Bank has attracted new shareholders and instituted several successful measures for the Bank (including digital transformation roadmap and new management) to grow internally in niche segments and to preserve additional finances and it is expected that the Bank will stabilise its operations and start generating profits within two-three years. In the worst-case scenario, under considerable unpredictable negative variation in the timing of cash inflows, if any potential breach of regulatory capital occurs, the shareholders have indicated their intention to continue to make available funds as are needed to the Bank to meet its regulatory capital requirements and continue operations. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the Bank will have sufficient funds to continue to meet its liabilities as they fall due and regulatory requirements for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis. Management therefore believes that there is no significant uncertainty with respect to Bank's ability to continue as a going concern.

(d) Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Bank's functional currency and the currency in which these financial statements are presented.

All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

(e) 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.

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

- Note 3(e)(vi) and Note 4 - establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 4 - impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information;
- Note 13 - valuation of land and buildings.

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

(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 are translated to the functional currency at the exchange rate at the reporting 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, impairment and payments during the period, and the amortised cost in foreign currency translated at the spot 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 translated to the functional currency at the exchange rate of the date when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

(b) Interest

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 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.

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. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest.

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)(vii).

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 and interest expense on lease liabilities.

(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.

Fees and commission income for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank. Income from account management and servicing fees is recognised over time as the services are provided. Income related to transactions is recognised at the point in time when the transaction takes place.

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.

(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 when the deductible temporary differences can be utilized.

(e) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans to customers, deposits and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date when the Bank becomes party of contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue. The fair value of financial instrument at initial recognition is generally its transaction price.

(ii) Classification

Financial asset

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 (SPPI) on the principal amount outstanding.

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.

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.

The Bank's retail and business loans comprises loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise overdrafts, unsecured and secured lending. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Bank in a separate portfolio for long term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

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 of 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 SPPI, 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 loans); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Non-recourse loans

In some cases loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet SPPI criterion. The Bank typically considers the following information when making the judgement:

- whether the contractual arrangement specifically defines the amounts and dates of cash payments of the loan;
- the fair value of collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding the decline in the value of collateral;
- the extent to which the collateral represents all or substantial portion of borrower's assets; and
- whether the Bank will benefit from any upside from the underlying asset.

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 liabilities

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

(iii) 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.

If the Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains all or substantially all of the risks and rewards of transferred assets or a portion of them, in such cases, the transferred assets are not derecognised. Examples of such transactions are security lending and sale-and-repurchase transactions.

Financial liabilities

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

(iv) Modification of financial assets and financial liabilities

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.

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.

If the modification of a financial asset measured at amortised cost or FVOCI 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. For floating-rate financial assets, 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 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 modification is carried out because of financial difficulties of the borrower (see Note 3(e)(vii)), 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.

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.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off amounts and intends either to settle them on a net basis or to realise asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS standards, or for gains and losses from a group of similar transactions.

(vi) Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

See also Note 4.

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 and financial guarantee contracts 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 that 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).

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’. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which a lifetime ECL is recognised but are not credit-impaired are referred to as ‘Stage 2 financial instruments’. Financial instruments allocated in Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

Measurement of ECL

ECL is 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;
- *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; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

When discounting future cash flows, the following discount rates are used:

- *financial assets other than purchased or originated credit-impaired financial assets (POCI):* the original effective rate or an approximation thereof;
- *undrawn loan commitments:* the effective interest rate or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and.
- *financial guarantee contracts issued:* the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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:

– the borrower’s / counterparty's financial condition jeopardizes the ability to repay the debt;
– the borrower’s liability was reduced by partially forgiving or writing off the principal and/or accrued interest on the financial instrument;
– to repay the loan, the Bank should use other means of payment, such as: selling a mortgage or selling other assets of the borrower;
– more than one restructuring of the loan, if it related to worsening of borrower’s conditions;
– loan past due more than 90 days.
– death of borrower, bankruptcy proceedings of the borrower (if legal entity);

– 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;
– transferring any of the borrower's loan to Stage 3.

For investment securities the Bank takes into consideration the rating agencies assessment of creditworthiness.

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:* as a deduction from the gross carrying amount of the assets.
- *loan commitments and financial guarantee contracts:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

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 loss on debt financial assets and loan commitments, net' 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.

(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 or less of the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(g) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the statement of financial position.

(h) Loans to customers

'Loans to customers' caption in the statement of financial position include loans to customers measured at amortized cost (see Note(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.

(i) Investment securities

The 'investment securities' caption in the statement of financial position includes debt investment securities measured at amortised cost (see 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.

(j) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for land and buildings, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset and bringing the asset to a working condition for their intended use.

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.

(ii) Subsequent costs

Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of an asset begins when it is available for use. Land is not depreciated. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Fixtures and fittings	4-10
Computers and communication equipment	4-10
Motor vehicles	5
Right-of-use asset	5
Other	4-10

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

(k) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amount of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset and its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Bank's assets do not generate separate cash inflows and are used as one CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs (if any) are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Current accounts and deposits from customers and subordinated debts

Current accounts and deposits from customers and subordinated debts are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised costs using effective interest method (Note 3(e)(ii)).

(m) Assets held for sale

The Bank classifies a non-current asset of repossessed property as "assets held for sale" whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Fixed assets held for sale are measured at lower of its carrying amount and fair value less cost to sell. Subsequent write downs (which does not include gain or loss from disposals) 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 assets held for sale is recognized not in excess of previously recognized impairment loss.

(n) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) Bank acting as a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branch premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit to the lease, or if that rate cannot be readily determined, the Bank`s incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in measurement of the lease liability comprise fixed payments.

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in ‘property and equipment’ and lease liabilities in ‘other liabilities’ in the statement of financial position.

Short term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

(o) Share capital

(ii) Ordinary shares

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

(iii) Dividends

The ability of the Bank 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.

(p) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2022. with earlier application permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements. The following new and amended standards are not expected to have a significant effect on the Bank’s financial statements:

- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).*
- *Definition of Accounting Estimates (Amendments to IAS 8).*
- *Deferred Tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12).*

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 21.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost without taking into account collateral or other credit enhancement. 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)(vii).

	31-Dec-22			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – business customers				
B2	7,488	-	-	7,488
B3	3,968	-	-	3,968
Caa3	50	-	-	50
Rated Ca-C	115	122	1,059	1,296
Total	**11,621**	**122**	**1,059**	**12,802**
Loss allowance	**(204)**	**(48)**	**(364)**	**(616)**
Carrying amount	**11,417**	**74**	**695**	**12,186**
Loans to customers at amortised cost – retail customers				
Online Loans				
Not overdue	30	-	-	30
Online loans - Overdue less than 30 days	1	-	-	1
Online loans - Overdue 30-60 days	-	1	-	1
Online loans - Overdue 60-90 days	-	2	-	2
Overdue more than 90 days	-	-	3	3
Overdue less than 90 (with restructure status)	-	2	3	5
Overdue more than 90 (with restructure status)	-	-	4	4
Other retail loans*				
Not overdue	6,525	-	-	6,525
Overdue less than 30 days	60	-	-	60
Overdue 30-60 days	-	9	-	9
Overdue 60-90 days	-	-	-	0
Overdue more than 90 days	-	-	3	3
Overdue less than 90 (with restructure status)	-	74	79	153
Overdue more than 90 (with restructure status)	-	-	102	102
Total retail	**6,616**	**88**	**194**	**6,898**
Loss allowance	**(175)**	**(15)**	**(97)**	**(287)**
Carrying amount	**6,441**	**73**	**97**	**6,611**
Grand total of carrying amount of loans to customers	**17,858**	**147**	**792**	**18,797**

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

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 and represents the country's rating (based on Moody's rating agency) adjusted by the individual risk characteristics of each individual borrower and level of their access to the government support.

The tables below summarise PD, LGD and EAD ranges applied by the Bank in Expected Credit Loss calculations:

	31 December 2022			31 December 2021		
Retail loans	**PD**	**LGD**	**EAD**	**PD**	**LGD**	**EAD**
Stage 1	3% - 35%	39% - 87%	91% - 100%	3% - 37%	42% - 82%	91% - 100%
Stage 2	37% - 76%	53% - 87%	91% - 100%	37% - 83%	42% - 89%	91% - 100%
Stage 3	100%	53% - 87%	100%	100%	42% - 100%	100%

	31 December 2022			31 December 2021		
Business loans	**PD**	**LGD**	**EAD**	**PD**	**LGD**	**EAD**
Stage 1	3% - 35%	38% - 100%	100%	1% - 37%	39% - 100%	91% - 100%
Stage 2	75%	53%	100%	-	-	-
Stage 3	100%	34%	100%	100%	32%	100%

As at 31 December 2022, 0.7% probability of default securities (31 December 2021: from 0.6% to 1.2%) and 40.9% loss given default (31 December 2021: government treasury bonds - 45%, corporate bonds - 100%) was applied to investment.

	31 December 2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – business customers				
B1	4,002	-	-	4,002
B2	4,360	-	-	4,360
Rated Ca-C	1,225	-	1,058	2,283
Total	**9,587**	**-**	**1,058**	**10,645**
Loss allowance	**(306)**	**-**	**(335)**	**(641)**
Carrying amount	**9,281**	**-**	**723**	**10,004**
Loans to customers at amortised cost – retail customers				
Online Loans				
Not overdue	75	3	-	78
Online loans - Overdue less than 30 days	2	1	-	3
Online loans - Overdue 30-60 days	-	-	-	-
Online loans - Overdue more than 60-90 days	-	1	-	1
Overdue more than 90 days	-	-	3	3
Overdue less than 90 (with restructure status)	-	14	38	52
Overdue more than 90 (with restructure status)	-	-	7	7
Other retail loans*				
Not overdue	4,489	294	-	4,783
Overdue less than 30 days	11	-	-	11
Overdue 30-60 days	-	-	-	-
Overdue 60-90 days	-	11	-	11
Overdue more than 90 days	-	-	12	12
Overdue less than 90 (with restructure status)	-	102	234	336
Overdue more than 90 (with restructure status)	-	-	246	246
Total retail	**4,577**	**426**	**540**	**5,543**
Loss allowance	**(123)**	**(97)**	**(389)**	**(609)**
Carrying amount	**4,454**	**329**	**151**	**4,934**
Grand total of carrying amount of loans to customers	**13,735**	**329**	**874**	**14,938**

At 31 December 2022, Bank holds no business loans to customers for which no loss allowance is recognised because of collateral (31 December 2021: nil)

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

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

IFRS 9 requires management to make a number of judgements, assumptions and estimates that affect the allowance for ECL. Estimates and judgements are based on management's knowledge and historical experience. See also accounting policy in Note 3(e)(vii).

A summary of the key judgements made by management is set out below.

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.

For loans to customers the Bank uses three criteria for determining whether there has been a significant increase in credit risk:

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

Generating the term structure of PD

Retail loans

Modelling of probability of default of consumer loans is based on the collective analysis method for each segment of loans separately. According to the definition of default, probability of default is based on historic monthly migration analysis in accordance with defaults in segments for previous 6 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).

Business 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 and represents the country's rating adjusted by the individual risk characteristics of each individual borrower and level of their access to the government support.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting period. What is considered significant will differ for different types of lending, in particular between financial assets assessed individually and collectively. For loans to customers the Bank uses overdue status of the financial assets as a backstop indicator and other qualitative indicators to assess whether significant increase in credit risk has occurred. Below are the description of qualitative indicators of significant increase in credit risk.

- Legal action to borrower, which may cause significant cash outflow;
- Placing lien or restriction on the bank account of the borrower;
- Delay in providing financial information for 1 year;
- 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.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, except for interbank placements and debt securities. 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 general principles of returning an instrument from lifetime ECL to being measured as 12-month ECL for instruments with increased credit risk due to restructuring or other quantitative or qualitative criteria is 6 consecutive successful payments on the instrument; at the same time, the borrower must not have any current overdue or significant risks on the other product.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is either more than 90 days past due or has restructured loan more than once due on any material obligations to the Bank, except for interbank placements and debt securities;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative;
- quantitative: e.g. overdue status and non-payment on another obligation of the same borrower to the Bank; and
- based on data developed internally or obtained from external sources.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Among the tested macroeconomic parameters such as GDP, inflation, Nominal Effective Exchange Rate, Nominal Effective Exchange Rate (quarterly change) was proved to have statistically significant influence on portfolio probabilities of default. Historical correlations from 2015 up to the reporting date showed the relationship between Nominal Effective Exchange Rate and PD. PD-s for every segment were adjusted by Nominal Effective Exchange Rate 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.

Vasicek model uses the correlation between macro parameter and PD estimated through least square regression and adjusts PD based on historical dependency according to the forecasted nominal effective exchange rate.

Nominal Effective Exchange Rate forecasts according to the National Bank of Georgia are as follows:

	2022		
	Optimistic scenario	**Base scenario**	**Pessimistic scenario**
Nominal Effective Exchange Rate growth %	1.5	0.0	-10.0

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)(iv).

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

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).

Payment holidays together with reasonable and supportable information, both quantitative and qualitative (for example, because of longer-term liquidity or solvency problems of the borrower) is considered to be triggering a SICR.

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.

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.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Loans are grouped by the default years and repaid exposure is linked to each group. LGD is calculated on a discounted cash flow basis using an effective interest rate as the discounting factor.

Exposure at Default (EAD) represents the expected exposure in the event of default. The EAD for financial assets is its gross carrying amount at the time of default. The Bank differentiates EAD on a product basis. For Collateralized and Uncollateralized 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 the fourth month. EAD for Credit cards is stated to be 100% of the disbursed amounts. EAD for Online loans – is 100% for the whole portfolio at the reporting date as these products are short-term by its nature.

EAD for the financial instrument other than those mentioned above is defined as 100%.

Loss allowance

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instruments. The basis for determining transfers due to changes in credit risk is set out in the accounting policy; see Note 3 (e).

	2022				2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost								
Balance at 1 January	429	97	724	1,250	142	504	755	1,401
Transfer to Stage 1	37	(37)	-	-	367	(367)	-	-
Transfer to Stage 2	(2)	2	-	-	-	-	-	-
Transfer to Stage 3	-	(20)	20	-	-	(6)	6	-
Net remeasurement of loss allowance*	(308)	9	(210)	(509)	(163)	(63)	190	(36)
New financial assets originated or purchased	240	-	-	240	211	-	-	211
Transfer to Stage 2	(12)	12	-	-	(29)	29	-	-
Transfer to Stage 3	(5)	-	5	-	(99)	-	99	-
Write-offs	-	-	(78)	(78)	-	-	(326)	(326)
Balance at 31 December	**379**	**63**	**461**	**903**	**429**	**97**	**724**	**1,250**

*Out of GEL 509 thousand net remeasurement of loss allowance GEL 417 thousand is attributable to the loans repaid during 2022.

	2022				2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – business customers								
Balance at 1 January	306	-	335	641	-	367	250	617
Transfer to Stage 1	-	-	-	-	367	(367)	-	-
Transfer to Stage 2	(2)	2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	(233)	46	29	(158)	(108)	-	85	(23)
New financial assets originated or purchased	133	-	-	133	47	-	-	47
Transfer to Stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Balance at 31 December	**204**	**48**	**364**	**616**	**306**	**-**	**335**	**641**

GEL'000	2022 Stage 1	2022 Stage 2	2022 Stage 3	2022 Total	2021 Stage 1	2021 Stage 2	2021 Stage 3	2021 Total
Loans to customers at amortised cost – retail customers								
Balance at 1 January	123	97	389	609	142	137	505	784
Transfer to Stage 1	37	(37)	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	(20)	20	-	-	(6)	6	-
Net remeasurement of loss allowance	(75)	(37)	(239)	(351)	(55)	(63)	105	(13)
New financial assets originated or purchased	107	-	-	107	164	-	-	164
Transfer to Stage 2	(12)	12	-	-	(29)	29	-	-
Transfer to Stage 3	(5)	-	5	-	(99)	-	99	-
Write-offs	-	-	(78)	(78)	-	-	(326)	(326)
Balance at 31 December	**175**	**15**	**97**	**287**	**123**	**97**	**389**	**609**

GEL'000	2022	2021
Investment securities at amortised cost		
Balance at 1 January	159	162
Net remeasurement of loss allowance	(86)	(3)
Balance at 31 December	**73**	**159**

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.

	2022			
GEL'000	**Loans to customers at amortised cost - retail customers**	**Loans to customers at amortised cost -business customers**	**Investment securities at amortised cost**	**Total**
Net remeasurement of loss allowance	(351)	(158)	(86)	(595)
New financial assets originated or purchased	107	133	-	240
Total	**(244)**	**(25)**	**(86)**	**(355)**
Recoveries of amounts previously written off	(114)	-	-	(114)
Total	**(358)**	**(25)**	**(86)**	**(469)**

	2021			
GEL'000	**Loans to customers at amortised cost - retail customers**	**Loans to customers at amortised cost -business customers**	**Investment securities at amortised cost**	**Total**
Net remeasurement of loss allowance	(13)	(23)	(3)	(39)
New financial assets originated or purchased	164	47	-	211
Total	**151**	**24**	**(3)**	**172**
Recoveries of amounts previously written off	(657)	-	-	(657)
Total	**(506)**	**24**	**(3)**	**(485)**

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

	2022				2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost								
Balance at 1 January	14,164	426	1,598	16,188	4,263	6,018	2,063	12,344
Transfer to Stage 1	167	(167)	-	-	5,455	(5,455)	-	-
Transfer to Stage 2	(135)	135	-	-	(14)	14	-	-
Transfer to Stage 3	(7)	(79)	86	-	(3)	(16)	19	-
New financial assets originated or purchased	10,973	-	-	10,973	6,583	-	-	6,583
Transfer to Stage 2	(81)	81	-	-	(112)	112	-	-
Transfer to Stage 3	(7)	-	7	-	(202)	-	202	-
Repayments and other movements (including foreign currency revaluations)	(6,837)	(186)	(360)	(7,383)	(1,806)	(247)	(360)	(2,413)
Write-offs	-	-	(78)	(78)	-	-	(326)	(326)
Balance at 31 December	**18,237**	**210**	**1,253**	**19,700**	**14,164**	**426**	**1,598**	**16,188**

	2022				2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – business customers								
Balance at 1 January	9,587	-	1,058	10,645	196	5,454	1,054	6,704
Transfer to Stage 1	-	-	-	-	5,455	(5,455)	-	-
Transfer to Stage 2	(132)	132	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
New financial assets originated or purchased	6,847	-	-	6,847	4,184	-	-	4,184
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Repayments and other movements (including foreign currency revaluations)	(4,681)	(10)	1	(4,690)	(248)	1	4	(243)
Write-offs	-	-	-	-	-	-	-	-
Balance at 31 December	**11,621**	**122**	**1,059**	**12,802**	**9,587**	**-**	**1,058**	**10,645**

	2022				2021			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – retail customers								
Balance at 1 January	4,577	426	540	5,543	4,067	564	1,009	5,640
Transfer to Stage 1	167	(167)	-	-	-		-	-
Transfer to Stage 2	(3)	3	-	-	(14)	14	-	-
Transfer to Stage 3	(7)	(79)	86	-	(3)	(16)	19	-
New financial assets originated or purchased	4,126	-	-	4,126	2,399	-	-	2,399
Transfer to Stage 2	(81)	81	-	-	(112)	112	-	-
Transfer to Stage 3	(7)	-	7	-	(202)	-	202	-
Repayments and other movements (including foreign currency) revaluations	(2,156)	(176)	(361)	(2,693)	(1,558)	(248)	(364)	(2,170)
Write-offs	-	-	(78)	(78)	-	-	(326)	(326)
Balance at 31 December	**6,616**	**88**	**194**	**6,898**	**4,577**	**426**	**540**	**5,543**

5. Net interest income

	2022 GEL'000	2021 GEL'000
Interest income calculated using the effective interest method		
Investment securities	3,399	3,779
Loans to customers	2,295	1,384
Other	268	209
	5,962	**5,372**
Interest expense		
Loans from credit institutions	1,464	1,399
Current accounts and deposits from customers	444	388
Subordinated debts	395	1
Certificate of deposits	191	190
Other	27	60
	2,521	**2,038**

6. General administrative expenses

	2022 GEL'000	2021 GEL'000
Communications and information services	1,174	1,066
Depreciation and amortization expense	720	581
Legal and consultancy*	701	752
Utilities and office supplies	284	220
Taxes other than on income	248	240
Occupancy and rent	146	73
Security	89	89
Other	427	240
	3,789	**3,261**

* Legal and consultancy expenses include audit fees of GEL 129 thousand (2021: GEL 130 thousand).

7. Salaries and employment benefit expenses

	2022 GEL'000	2021 GEL'000
Wages and salaries	3,759	2,966
Other benefits	35	36
	3,794	**3,002**

The average number of Bank employees (excluding supervisory board members) for the year ended 31 December 2022 amounted 90 persons (2021: 84 persons), of which: top management - 7 employees (2021: 7 employees), mid-level managers – 18 employees (2021: 14 employees) and other staff - 65 employees (2021: 63 employees). All employees were full time employees.

8. Income tax (expense)/benefit

	2022 GEL'000	2021 GEL'000
Effect of change in tax legislation	(648)	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	111	55
Total income tax (expense)/benefit	**(537)**	**55**

In 2022 the Government of Georgia has approved the changes to the current corporate tax model in Georgia for financial institutions, applicable from 2023. According to the amendments to the legislation, the financial sector will no longer switch to the Estonian tax model, which was expected to exempt banks from paying corporate taxes on retained earnings and only required a payment of 15% corporate tax rate on distributed earnings. Tax authorities also require the banks to reimburse the tax reliefs (if any) obtained through previous provisioning calculation differences caused by differences in tax and IFRS standards bases; the effects of the equalizing of tax and IFRS standards bases for interest income and expense items are still under consideration by tax authorities. In addition, with the effect from 2023, the existing corporate tax rate for banks will be increased from 15% to 20%, while dividends will no longer be taxed with 5% dividend tax.

The change to the corporate taxation model had an immediate impact on deferred tax balances and a corresponding income tax expense, attributable to temporary differences between financial and tax accounting balances, arising from prior periods. As a result of these changes, in 2022 the Bank, using the 20% tax rate, has recognized net deferred tax liabilities of GEL 1,753 thousand, tax expense in the amount of GEL 537 thousand in the statement of profit and loss and deferred tax on revaluation reserve of property and equipment of GEL 1,121 thousand in other comprehensive income.

Deferred tax assets for deductible temporary difference and tax loss carry forwards are recognised only to the extent that it is probable that future taxable profits and reversal of deferred tax liabilities will be available against which the deductions can be utilized. As at 31 December 2022 the Bank has no balance of tax loss carry forward for which no deferred tax asset was recognized (31 December 2021: GEL 1,051 thousand). Deferred tax asset for allowance for loan was calculated using 15% tax rate.

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

	2022 GEL'000	%	2021 GEL'000	%
Loss before income tax	(3,389)		(974)	
Income tax at the applicable tax rate	508	(15)	146	(15)
Effect of change in income tax legislation	(648)	19	-	-
Non-deductible differences and other	(397)	12	(91)	9
	(537)	**16**	**55**	**(6)**

Deferred tax assets and liabilities

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

2022 GEL'000	1 January 2022	Recognized in profit or loss	Effect of change in tax legislation: Recognized in profit or loss	Effect of change in tax legislation: Recognised in other comprehensive income	31 December 2022
Property and equipment	(74)	93	(2,679)	(1,121)	(3,781)
Loans to customers	17	(22)	-	-	(4)
Assets held for sale	(56)	(22)	-	-	(79)
Other liability	19	62	-	-	81
Tax loss carry forward	-	-	2,031	-	2,031
	(94)	**111**	**(648)**	**(1,121)**	**(1,752)**

2021 GEL'000	1 January 2021	Recognised in equity	Recognized in profit or loss	31 December 2021
Property and equipment	(116)	-	42	(74)
Loans to customers	(8)	-	25	17
Assets held for sale	(58)	-	2	(56)
Other liability	33	-	(14)	19
	(149)	**-**	**55**	**(94)**

9. Cash and cash equivalents

	2022 GEL'000	2021 GEL'000
Cash on hand	**1,857**	**1,537**
Cash in transit	**530**	**-**
Nostro accounts with the National Bank of Georgia excluding obligatory reserves	**533**	**16**
Nostro accounts with other banks		
Rated BB- to BB+	701	12,441
Rated B+ and below	426	145
Total nostro accounts with other banks	**1,127**	**12,586**
Cash equivalents		
Term deposit	6,800	-
Total cash and cash equivalents	**10,847**	**14,139**

No cash and cash equivalents are past due. As at 31 December 2022 the Bank allocates cash and cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). Management estimates that ECL is immaterial at reporting dates.

As at 31 December 2022 the term deposit of GEL 6,800 thousand, bearing 11% interest rate, was held with the Bank of Georgia with long term issuer default rating of BB- (based on Fitch rating agency).

All commercial banks are rated by Fitch rating agency.

As at 31 December 2022 the Bank has one counterparty with the balance of GEL 7,353 thousand, exceeding 10% of the Bank's equity (31 December 2021: one counterparty with the balance of GEL 8,149 thousand, exceeding 10% of the Bank's equity).

10. Amounts due from credit institutions

	2022 GEL'000	2021 GEL'000
Obligatory reserve with the National Bank of Georgia (NBG)	1,516	2,278
Total amounts due from credit institution	**1,516**	**2,278**

In 2022 the credit institutions are required to maintain an interest earning cash deposit (obligatory reserve) with the NBG at 5% in Lari and at 10%-25% in foreign currency (depending on the dollarization ratio of deposits of each commercial bank) 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. However, according to the residual maturities, funds attracted in national currency with a maturity of more than 1 year and foreign currency with a maturity of more than 2 years are exempt from reserve requirements, while funds attracted in foreign currency with a maturity of 1 to 2 years are subject of 10%-15% reserve requirement (depending on the dollarization ratio).

As at 31 December 2022 the Bank allocates amounts due from credit institutions under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). Management estimates that ECL is immaterial at reporting dates.

11. Investment securities

	2022 GEL'000	2021 GEL'000
Government treasury bonds	29,178	35,827
Corporate bonds	3,007	5,018
Total investment securities measured at amortized cost	**32,185**	**40,845**

	31 December 2022			31 December 2021		
	Nominal interest rate, %	**Maturity**	**Amount**	**Nominal interest rate,%**	**Maturity**	**Amount**
Debt securities of the Ministry of Finance of Georgia	8.1 – 11.6	2023 - 2030	29,178	8.1 – 11.6	2022-2030	35,827
Corporate bonds (JSC TBC Leasing)	3.3% + 3M TIBR	2023	3,007	3.3% + 3M TIBR	2023	2,986
Corporate bonds (JSC Nikora)	4% + 3M TIBR	2022	-	4% + 3M TIBR	2022	2,032

No investment securities are past due. During 2022 no new investment securities were purchased by the Bank (2021: nil) and GEL 8,500 thousand investment securities were repaid (2021: GEL 1,000 thousand). As at 31 December 2022 the Bank allocates investment securities to Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). ECL estimation is presented in Note 4.

As at 31 December 2022 Government treasury bonds of GEL 10,620 thousand (GEL 24,856 thousand as at 31 December 2021) are pledged to secure the loan from the credit institution (see Note 15).

12. Loans to customers

	2022 GEL'000	2021 GEL'000
Business loans		
Corporate loans	9,800	10,443
Micro and SME loans	3,002	202
Total business loans	**12,802**	**10,645**
Loans to retail customers		
Consumer lending - uncollateralized	4,155	2,970
Consumer lending - collateralized	2,682	2,410
Online loans	46	144
Credit cards	15	19
Total loans to retail customers	**6,898**	**5,543**
Total gross loans to customers	**19,700**	**16,188**
Loss allowance	(903)	(1,250)
Net loans to customers	**18,797**	**14,938**

Information on the credit quality of loans to customers as at 31 December 2022 and 31 December 2021 is disclosed in Note 4.

(a) Analysis of collateral and other credit enhancements

(i) Loans to business customers

Loans to business customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a business 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 Bank updates the valuation of property held against exposures to business customers' collateral on an annual basis.

The table below sets out the carrying amount and the value of identifiable property (real estate) held against loans and advances to business customers measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that is held against.

	2022		2021	
	Carrying amount	**Collateral**	**Carrying amount**	**Collateral**
Stages 1 and 2	11,491	8,044	9,281	8,016
Stages 3	695	695	723	723
	12,186	**8,739**	**10,004**	**8,739**

The tables above exclude overcollateralization.

For loans secured by multiple types of collateral, only real estate was considered for impairment assessment.

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

All retail collateralized loans are secured by real estate. The major part of the retail collateralized loans are secured by real estate with LTV ratio of approximately 47% (31 December 2021: 42%). Approximately 38% of credit-impaired loans were collateralized as at 31 December 2022 (31 December 2021: 62%).

(iii) Assets held for sale

As at 31 December 2022 and 2021, assets held for sale comprise from repossessed collateral:

	2022 GEL'000	2021 GEL'000
Real estate	3,286	3,512
Total repossessed collateral	**3,286**	**3,512**

In 2022 the Bank reversed impairment for assets held for sale of GEL 33 thousand recognised in the statement of profit or loss and other comprehensive income (2021: GEL 26 thousand).

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

(b) 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).

10 % increase (capped to 100%, if applicable) in any of these assumptions, assuming that all other variables remain constant, could affect the expected credit loss on loans to customers for 2022 by amounts in the range of GEL 10 thousand to GEL 285 thousand for retail customers and up to GEL 588 thousand for business customers.

(c) Significant credit exposures

As at 31 December 2022 and 2021, the Bank has no borrowers or groups of connected borrowers, whose net loan balances exceed 10% of equity.

(d) Loan maturities

The maturity of the loan portfolio is presented in Note 21(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	Computer and communication equipment	Fixtures and fittings	Motor vehicles	Right of use asset	Other	Total
Cost/revalued amount							
Balance at 1 January 2021	20,385	1,591	965	162	-	1,005	24,108
Additions	2,987	305	41	-	48	630	4,011
Disposals	(2,995)	(19)	(109)	-	-	(79)	(3,202)
Effect of revaluation	(950)	-	-	-	-	-	(950)
Balance at 31 December 2021	**19,427**	**1,877**	**897**	**162**	**48**	**1,556**	**23,967**
Balance at 1 January 2022	19,427	1,877	897	162	48	1,556	23,967
Additions	43	94	37	-	375	37	586
Disposals	(124)	(121)	(40)	-	-	(30)	(315)
Effect of revaluation	(1,539)	-	-	-	-	-	(1,539)
Balance at 31 December 2022	**17,807**	**1,850**	**894**	**162**	**423**	**1,563**	**22,699**
Depreciation							
Balance at 1 January 2021	-	1,403	965	162	-	773	3,303
Depreciation for the year	345	98	13	-	2	65	523
Disposals	(24)	(6)	(109)	-	-	(79)	(218)
Effect of revaluation	(321)	-	-	-	-	-	(321)
Balance at 31 December 2021	**-**	**1,495**	**869**	**162**	**2**	**759**	**3,287**
Balance at 1 January 2022	-	1,495	869	162	2	759	3,287
Depreciation for the year	375	129	14	-	32	85	635
Disposals	(4)	(116)	(39)	-	-	(2)	(161)
Effect of revaluation	(371)	-	-	-	-	-	(371)
Balance at 31 December 2022	**-**	**1,508**	**844**	**162**	**34**	**842**	**3,390**
Carrying amount							
At 31 December 2020	20,385	188	-	-	-	232	20,805
At 31 December 2021	**19,427**	**382**	**28**	**-**	**46**	**797**	**20,680**
At 31 December 2022	**17,807**	**342**	**50**	**-**	**389**	**721**	**19,309**

(a) Revalued assets

In 2022 management commissioned Baker Tilly Georgia LLC to independently appraise land and buildings as at 1 December 2022 which, in accordance with the Bank's accounting policy, is measured at fair value.

The management team regularly reviews significant unobservable inputs and valuation adjustments. As a result of review performed by the management as at 31 December 2022, the fair value of land and buildings was determined to be GEL 17,807 thousand (2021: GEL 19,427 thousand) and reflects market prices in recent transactions. Land and buildings are categorized within level 3 of fair value hierarchy.

The significant unobservable inputs relate to the differences in the characteristics of the properties, such as size, location, access to the properties and conditions for sale. The adjustments related to each of the significant unobservable input above varied between 0% to 10% (2021: 5% to 15%). 5% change in the adjusted market prices used in the valuation would have changed the fair value measurement by GEL 890 thousand (2021: GEL 971 thousand).

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

	2022 GEL'000	2021 GEL'000
Cost	14,122	14,184
Accumulated depreciation	(3,062)	(2,780)
Net carrying amount	**11,060**	**11,404**

(b) Capital Commitments

As at 31 December 2022 the Bank's capital commitments amounted to GEL 148 thousand (31 December 2021: GEL 295 thousand), related to the acquisition of the license and related services for the risk management platform (fraud prevention basic module; fraud prevention enterprise module, fraud prevention AML base and extended manager module) that enables the Bank to conduct analysis of events in real time and compares the data observed in the current event with historical consumer activity.

14. Current accounts and deposits from customers

	2022 GEL'000	2021 GEL'000
Current accounts	10,695	6,368
Term deposits	1,662	1,334
	12,357	**7,702**

As at 31 December 2022 amounts due to customers of GEL 2,790 thousand (31% of total current accounts and deposits from customers balance) were due to the largest customer (2021: GEL 2,315 thousand (30%)).

As at 31 December 2022 and 2021, the Bank has no customers, whose balances exceed 10% of equity.

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

	2022 GEL'000	2021 GEL'000
Individuals:		
- Current accounts	3,761	1,786
- Term deposits	586	501
Total due to individuals	**4,347**	**2,287**
Commercial legal entities:		
- Current accounts	6,934	4,582
- Term deposits	1,076	833
Total due to commercial legal entities	**8,010**	**5,415**
Total amounts due to customers	**12,357**	**7,702**

An analysis of customer accounts by economic sector is as follows:

	2022 GEL'000	2021 GEL'000
Individuals	4,347	2,287
Transportation and communication	2,812	65
Trade and service	2,113	1,248
Financial services	1,145	836
Investing activities	1,103	2,314
Real estate	407	429
Construction	107	121
Other	323	402
Amounts due to customers	**12,357**	**7,702**

15. Loans from credit institutions

	2022 GEL'000	2021 GEL'000
Loans from the National Bank of Georgia	10,027	23,258
	10,027	**23,258**

As at 31 December 2022 the loan received from the NBG has maturity on 20 January 2023 and bears annual interest rate of 11.13% (2021: maturity from 3 January to 20 January 2022 and interest rate from 10.59% to 11.25%). Loan from the National Bank of Georgia is collateralized with the Government treasury bonds of GEL 10,620 thousand (see Note 11).

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

GEL'000	Loans from financial institutions	Certificate of deposits*	Subordinated debts	Total
Balance at 1 January 2022				
Changes from financing cash flows	**23,258**	**1,873**	**2,501**	**27,632**
Receipts of loans	123,944	-	375	124,319
Repayment of loans	(137,165)	-	-	(137,165)
Total changes from financing cash flows	**(13,221)**	**-**	**375**	**(12,846)**
The effect of changes in foreign exchange rates	**-**	**-**	**-**	**-**
Other changes				
Interest expense	1,464	191	395	2,050
Interest paid	(1,474)	(183)	(392)	(2,049)
Total other changes	**(10)**	**8**	**3**	**1**
Balance at 31 December 2022	**10,027**	**1,881**	**2,879**	**14,787**

*As at 31 December 2022, the outstanding balance of certificate of deposits (CDs) issued to the Ministry of Finance of Georgia amounted to GEL 1,881 thousand (31 December 2021: GEL 1,873 thousand). CDs are repayable at maturity, 18 January 2028, and bear annual interest rate of 9.88%.

GEL'000	Loans from financial institutions	Certificate of deposits*	Subordinated debt	Total
Balance at 1 January 2021	**12,500**	**1,866**	**-**	**14,366**
Changes from financing cash flows				
Receipts of loans	316,423	-	2,500	318,923
Repayment of loans	(305,703)	-	-	(305,703)
Proceeds from certificate of deposits	-	-	-	-
Total changes from financing cash flows	**10,720**	**-**	**2,500**	**13,220**
The effect of changes in foreign exchange rates	**-**	**-**	**-**	**-**
Other changes				
Interest expense	1,401	190	1	1,592
Interest paid	(1,363)	(183)	-	(1,546)
Total other changes	**38**	**7**	**1**	**46**
Balance at 31 December 2021	**23,258**	**1,873**	**2,501**	**27,632**

16. Subordinated debts

	2022 GEL'000	2021 GEL'000
Subordinated debts from the Shareholder	2,879	2,501
	2,879	**2,501**

On 18 August 2022 the Bank obtained additional subordinated debt of GEL 375 thousand from Silk Road Group Holding (Malta) Limited (in 2021 subordinated debt of GEL 2,500 thousand was obtained from Silk Road Group Holding (Malta) Limited). Subordinated debts have maturity on 30 December 2031, are denominated in GEL and bear annual interest rate of 15%. Principals are repayable at maturity. Subordinated debts are uncollateralised.

Subordinated debts are included within the Bank`s regulatory capital base as Tier 2 capital under the National Bank of Georgia (see Note 22). The capital contribution of all Tier 2 debts is amortised for regulatory purposes in their final five years before maturity.

The debts would in the event of winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Bank did not have any defaults of principal or interest or other breaches with respect to its subordinated debts during the years ended 31 December 2022 and 31 December 2021.

17. Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2022, share capital of the Bank comprised 629,464 of authorized fully paid shares with nominal value GEL 100 each (2021: 611,464 authorized fully paid shares with the nominal value 100 GEL each). One voting right is granted per issued share, therefore total number of voting rights in the Bank is 629,464.

On 22 November 2022, the Bank issued 18,000 ordinary shares with a nominal value of 100 Georgial Lari (GEL) each. Issued shares were purchased by Silk Holding JSC. The issuance of new shares resulted in a dilution of the ownership and voting power of existing shareholders.

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 the Georgian legislation.

18. 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.

19. Related party transactions

(a) Control relationships

As at 31 December 2022, the Bank's immediate and ultimate parent company is Silk Road Group Holding (Malta) Limited, which owns 60.00% of the Bank's share capital (shareholder structure of the bank is presented in Note 1 (a)). No publicly available financial statements are produced by Silk Road Group Holding (Malta) Limited.

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

(b) Related party transactions

Total remuneration of key management personnel included in salaries and employment benefits expenses for the years ended 31 December 2022 and 2021 is as follows:

	2022 GEL'000	2021 GEL'000
Short-term employee benefits	**1,367**	**1,185**

The outstanding balances and average contractual interest rates as at 31 December 2022 and 2021 for related party transactions are shown below:

	2022 GEL'000	2021 GEL'000
Statement of financial position		
Loans issued - Net carrying amount		
Entities under common control	5,009	4,990
Shareholders	245	283
Key management personnel	189	31
Subordinated debts		
Shareholders	2,879	2,501
Current accounts and deposits from customers		
Entities under common control	5,336	3,407
Key management personnel	77	22
Shareholders	21	11
Close family members of management and shareholders	-	131
Other	297	194

Loans issued to related parties are mainly long-term and bear average interest rate of 9.0% to 17% (2021: mainly long-term, average interest rate from 9.0% to 15.5%). Current accounts and deposits from related parties mainly mature within 1 year and bear average interest rate up to 11% (2021: mainly short-term, average interest rate up to 10.5%).

Loans issued to related parties are secured with the collateral with the loan to value ratio from 32% to 185% (2021: from 57% to 166%). Expected credit losses as at 31 December 2022 on loans issued to related parties is GEL 75 thousand (31 December 2021: GEL 241 thousand).

During 2022 impairment reversal on loans issued to related parties amounted GEL 166 thousand (2021: GEL 140 thousand).

As at 31 December 2022 financial guarantees issued to the entities under common control amounted GEL 757 thousand, with deposit collaterals of GEL 556 thousand held against guarantees. As at 31 December 2022, ECL of GEL 5 thousand is recognised for the financial guarantees issued to related parties.

In 2021 the Bank purchased property from the entity under common control for cash consideration of GEL 2,987 thousand.

Amounts included in profit or loss in relation to transactions with related parties are mainly with entities under common control and for the year ended 31 December are as follows:

	2022 GEL'000	**2021 GEL'000**
Profit or loss		
Interest income	599	621
Other income	28	23
Fees and commission income	19	15
Gain from foreign currency dealings	3	77
General administrative expenses	(356)	(200)
Interest expense	(349)	(333)
Consulting fees	(144)	(139)

20. 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 2022 and 31 December 2021 approximate their carrying amounts. For the derivative financial instruments, see Note 21.

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.

21. 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 financial position. The Bank has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; 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 operations 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 Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

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 Committee;
- liquidity risk is managed by ALCO;
- market risk is managed by ALCO;
- operational risk is managed by the Risk Management Department.

(b) 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 two levels of credit committee which is responsible for approving credit limits for individual borrowers. Review and approval limits for each credit committee differs per loan type.

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 and Credit Risk Committee.

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:

	2022 GEL'000	2021 GEL'000
ASSETS		
Cash and cash equivalents	8,993	12,602
Amounts due from credit institutions	1,516	2,278
Loans to customers	18,797	14,938
Investment securities	32,185	40,845
Other financial assets	183	449
Total maximum exposure	**61,674**	**71,112**

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

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years. The contractual amounts of financial guarantees as at 31 December 2022 amounted GEL 1,675 thousand and deposit collaterals held against guarantees amounted GEL 556 thousand. The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

As at 31 December 2022 the Bank allocates financial guarantees under Stage 1 for the purposes of identifying expected credit loss under IFRS 9. As at 31 December 2022 the respective ECL amount is GEL 10 thousand.

(c) 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 the National Bank of Georgia. The NBG requires banks to maintain liquidity ratio of more than 100%. As at 31 December 2022 and 2021 the ratio was as follows:

	2022	2021
LCR "Average Liquidity Ratio" (average monthly volume of liquid assets / average monthly volume of liabilities)*	401.21%	609.82%

* This ratio is unaudited.

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 and liabilities.

The remaining maturity analysis for financial assets and liabilities as at 31 December 2022 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	10,847	-	-	-	-	10,847	10,847
Amounts due from credit institutions	1,516	-	-	-	-	1,516	1,516
Investment securities	4,878	3,137	1,533	14,868	17,728	42,144	32,185
Loans to customers	1,710	972	4,275	14,088	7,018	28,063	18,797
Other financial assets	183	-	-	-	-	183	183
Total financial assets	**19,134**	**4,109**	**5,808**	**28,956**	**24,746**	**82,753**	**63,528**
Loans and borrowings	(10,088)	-	-	-	-	(10,088)	(10,027)
Current accounts and deposits from customers	(11,847)	(1)	(282)	(251)	-	(12,381)	(12,357)
Certificate of deposits	(92)	-	(92)	(733)	(1,947)	(2,864)	(1,881)
Subordinated debts	-	-	(431)	(1,726)	(4,604)	(6,761)	(2,879)
Other financial liabilities	(638)	(12)	(184)	(439)	(275)	(1,548)	(1,496)
Total financial liabilities	**(22,665)**	**(13)**	**(989)**	**(3,149)**	**(6,826)**	**(33,642)**	**(28,640)**
Derivative contracts							
- Cash inflow	5,305	-	8,237	-	-	13,542	37
- Cash outflow	(5,287)	-	(8,106)	-	-	(13,393)	(83)
Net liquidity gap on recognised financial assets and liabilities	**(3,513)**	**4,096**	**4,950**	**25,807**	**17,920**	**49,260**	**34,842**

- *Notwithstanding the net current liability position of the Bank the management believes that the Bank is not exposed to any significant liquidity risk due the following: commercial banks operating in Georgia have option to obtain financing from the NBG by the amount of 95% of the Government treasury bonds and/or up to 90% of the corporate treasury bonds held by the commercial banks. Balance of investment securities held by the Bank as at 31 December 2022 amounted GEL 32,185 thousand (see Note 11).

- Loan of GEL 10,027 thousand obtained from the National Bank of Georgia, has contractual maturity till 20 January 2023 (see Note 15), but the loan can be prolonged any time. Furthermore, further NBG financing can be obtained by the Bank (see above). In 2023 the Bank repaid part of the above loans and obtained new financing from the NBG, with the similar terms and conditions.

- In the unlikely worst-case scenario, the Bank can sell the long-term investment securities either back to the NBG or on the secondary market.

The remaining maturity analysis for financial assets and liabilities as at 31 December 2021 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	14,139	-	-	-	-	14,139	14,139
Amounts due from credit institutions	2,278	-	-	-	-	2,278	2,278
Investment securities	948	130	11,032	22,835	19,301	54,246	40,845
Loans to customers	1,714	595	2,588	11,144	7,388	23,429	14,938
Other financial assets	129	-	-	-	-	129	129
Total financial assets	**19,208**	**725**	**13,620**	**33,979**	**26,689**	**94,221**	**72,329**
Loans and borrowings	(23,258)	-	-	-	-	(23,258)	(23,258)
Current accounts and deposits from customers	(7,386)	(12)	(12)	(321)	-	(7,731)	(7,702)
Certificate of deposits	(92)	-	(92)	(733)	(2,130)	(3,047)	(1,873)
Subordinated debts	-	-	(373)	(1,501)	(4,378)	(6,252)	(2,501)
Other financial liabilities	(688)	-	(66)	-	-	(754)	(754)
Total financial liabilities	**(31,424)**	**(12)**	**(543)**	**(2,555)**	**(6,508)**	**(41,042)**	**(36,088)**
Derivative contracts							
- Cash inflow	10,389	-	-	-	-	10,389	-
- Cash outflow	(10,067)	-	-	-	-	(10,067)	320
Net liquidity gap on recognised financial assets and liabilities	**(11,894)**	**713**	**13,077**	**31,424**	**20,181**	**53,501**	**36,561**

Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are contractually due to be recovered or settled.

	2022			2021		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	10,847	-	10,847	14,139	-	14,139
Amounts due from credit institutions	1,516	-	1,516	2,278	-	2,278
Loans to customers	1,065	17,732	18,797	1,072	13,866	14,938
Investment securities	7,153	25,032	32,185	11,614	29,231	40,845
Other financial assets	183	-	183	449	-	449
Total	**20,764**	**42,764**	**63,528**	**29,552**	**43,097**	**72,649**
Financial liabilities						
Loans and borrowings	(10,027)	-	(10,027)	(23,258)	-	(23,258)
Current accounts and deposits from customers	(12,124)	(233)	(12,357)	(7,408)	(294)	(7,702)
Certificate of deposits	(26)	(1,855)	(1,881)	-	(1,873)	(1,873)
Subordinated debts	(4)	(2,875)	(2,879)	(1)	(2,500)	(2,501)
Other financial liabilities	(824)	(672)	(1,496)	(754)	-	(754)
Total	**(23,005)**	**(5,635)**	**(28,640)**	**(31,421)**	**(4,667)**	**(36,088)**
Net exposure	**(2,241)**	**37,129**	**34,888**	**(1,869)**	**38,430**	**36,561**

The Bank's ability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency and prepayment risks, the Bank has no significant concentration of market risk.

(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. As at 31 December 2022 and 2021, the Bank is not materially exposed to the interest rate risk as it does not have material balances of financial assets or liabilities, bearing variable interest rates.

Average effective interest rates

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

	2022 Average effective interest rate, %			2021 Average effective interest rate, %		
	GEL	**USD**	**Other currencies**	**GEL**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	11.00%	-	-	0%	-	-
Loans to customers	15.06%	10.44%	-	15.33%	11.34%	-
Investment securities	9.89%	-	-	9.63%	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	7.58%	1.40%	-	3.02%	1.00%	-
Certificate of deposits	10.95%	-	-	10.95%	-	-
Subordinated debts	15%	-	-	15%	-	-
Loans and borrowings	11.13%	-	-	10.72%	-	-

(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 2022:

	USD GEL'000	**EUR GEL'000**	**Other GEL'000**	**Total GEL'000**
ASSETS				
Cash and cash equivalents	2,146	393	64	2,603
Amounts due from credit institutions	1,456	58	-	1,514
Loans to customers	7,128	-	-	7,128
Other financial assets	32	-	-	32
Total assets	**10,762**	**451**	**64**	**11,277**
LIABILITIES				
Current accounts and deposits from customers	(6,666)	(155)	-	(6,821)
Other financial liabilities	(549)	(13)	-	(562)
Total liabilities	**(7,215)**	**(168)**	**-**	**(7,383)**
Effect of derivatives*	**(3,897)**	**538**	**-**	**(3,359)**
Net position	**(350)**	**821**	**64**	**535**

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

	USD GEL'000	EUR GEL'000	Other GEL'000	Total GEL'000
ASSETS				
Cash and cash equivalents	12,655	373	251	13,279
Amounts due from credit institutions	2,247	31	-	2,278
Loans to customers	3,222	-	-	3,222
Other financial assets	51	-	-	51
Total assets	**18,175**	**404**	**251**	**18,830**
LIABILITIES				
Current accounts and deposits from customers	(5,300)	(125)	-	(5,425)
Other financial liabilities	(331)	(13)	-	(344)
Total liabilities	**(5,631)**	**(138)**	**-**	**(5,769)**
Effect of derivatives*	**(10,067)**	**-**	**-**	**(10,067)**
Net position	**2,477**	**266**	**251**	**2,994**

* The table above shows the notional amounts of forward contracts. 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.

Net gain from foreign currency dealings and forward contracts of GEL 1,219 thousand in 2022 (2021: GEL 2,532 thousand) represents fair value movements on forward exchange contracts and foreign exchange conversion gain/losses during the year and also includes changes in balances at reporting dates as disclosed below.

	31 December 2022		31 December 2021	
GEL'000	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Foreign currency derivative contract				
Sell USD buy GEL	8,106	(64)	10,067	320
Buy USD sell GEL	4,747	(19)	-	-
Buy EUR sell GEL	-	-	-	-
Buy EUR sell USD	538	37	-	-
Sell EUR buy USD	-	-	-	-
		(46)		**320**

Included in other assets of GEL 1,538 thousand is the fair value of forward exchange contracts of GEL 37 thousand (31 December 2021: the fair value of forward exchange contracts GEL 320 thousand included in other assets of GEL 994 thousand).

Included in other liabilities of GEL 1,870 thousand is the fair value of forward exchange contracts of GEL 83 thousand (31 December 2021: nil).

Change in fair value of forward exchange contracts of GEL 366 thousand in 2022 is included in net gain from foreign currency dealings and forward contracts of GEL 1,268 thousand above. (2021: change in fair value of GEL 1,775 thousand included in net gain from foreign currency dealings and forward contracts of GEL 2,532 thousand).

Derivative financial instruments are categorized within level 2 of fair value hierarchy.

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2022	**2021**	**2022**	**2021**
USD 1	2.9156	3.2209	2.7020	3.0976
EUR 1	3.0792	3.8140	2.8844	3.5040

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

	2022 GEL'000	**2021 GEL'000**
10% appreciation of USD against GEL	(30)	211
10% appreciation of EUR against GEL	70	23

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

(e) 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.

22. Capital adequacy

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may reassess its business strategy or adjust the amount of return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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 2022 and 2021 Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Regulatory Capital ratios is set at 4.50%, 6.00% and 8.00%, respectively. Capital Conservation and Countercyclical buffers were set at 0% (2021: 0% and 0% respectively).

As at 31 December 2022, the Bank had to maintain the currency induced credit risk (CICR) buffer of 0.26% (2021: 0.11%) and Risk buffer for credit portfolio concentration of 5.36% (2021: 4.68%). All the rest Pillar II buffers were to preserve at nil percent (2021: nil). Under total Basel III requirements the Bank was required to maintain a minimum regulatory capital ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio of 22.92%, 14.99% and 11.24%, respectively (2021:21.98%, 11.63% and 8.72%, respectively). The Bank was in compliance with these capital adequacy ratios as at 31 December 2022 and as at 31 December 2021.

The calculation of the capital adequacy ratios in accordance with the NBG accounting rules and capital adequacy Basel III framework as at 31 December 2022 and 31 December 2021:

GEL'000	**2022**	**2021**
Tier 1 capital*	48,511	49,632
Supplementary capital*	3,295	2,863
Total regulatory capital*	**51,806**	**52,495**
Risk weighted assets*	**57,240**	**66,480**
Regulatory capital ratio*	90.51%	78.96%
Common Equity Tier 1 capital adequacy ratio/tier 1 capital adequacy ratio*	84.75%	74.66%

*These amounts are unaudited.

As at 31 December 2022 and as at the date these financial statements were authorised for issue (unaudited), the Bank was in compliance with the minimum regulatory capital requirement of GEL 50,000 thousand imposed by the NBG (31 December 2022: the Bank was in compliance with the minimum regulatory capital requirement of GEL 50,000 thousand, please see Note 2 (c)).

Based on the new regulations issued by the National Bank of Georgia, from 1 January 2023 the commercial banks in Georgia adopted IFRS standards for supervisory reports and they are expected to comply with supervisory regulations with IFRS standards-based numbers and approaches. As at 1 January 2023, based on the above changes the regulatory capital of the Bank amounted GEL 55,385 thousand.