JSC Terabank

Consolidated Financial Statements
for 2019

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Independent Auditors' Report

To the Shareholders of JSC Terabank

Opinion

We have audited the consolidated financial statements of JSC Terabank and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Statement of Management Report

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

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

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

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

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

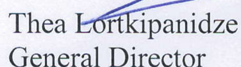
Karen Safaryan

KPMG Georgia LLC
Tbilisi, Georgia
31 May 2020

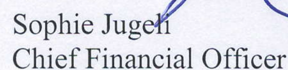
GEL'000	Notes	2019	2018*
Assets			
Cash and cash equivalents	5	56,988	68,917
Mandatory reserve deposit with the National Bank of Georgia		115,597	114,432
Loans to customers	7	743,719	667,330
Investment securities	6	59,009	56,810
Premises and equipment	8	25,159	18,460
Goodwill	9	20,374	20,374
Other intangible assets		2,820	2,741
Repossessed property	7	13,208	12,796
Tax asset		423	-
Other assets	10	6,747	4,418
Total assets		**1,044,044**	**966,278**
Liabilities			
Loans from financial institutions and lease liabilities	12	112,632	71,805
Deposits and balances from banks	15	5,522	225
Current accounts and deposits from customers	16	703,148	683,266
Tax liabilities		-	923
Deferred tax liability	11	843	1,723
Other liabilities	17	9,636	14,466
Subordinated loans	13	52,986	46,115
Total liabilities		**884,767**	**818,523**
Equity			
Share capital	18	121,372	121,372
Retained earnings		37,905	26,383
Total equity		**159,277**	**147,755**
Total liabilities and equity		**1,044,044**	**966,278**

*The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See note 2 (e).

These consolidated financial statements were approved by the Management Board on 31th of May 2020 and were signed on its behalf by:



Thea Lortkipanidze
General Director



Sophie Jugeli
Chief Financial Officer

GEL'000	Notes	2019	2018*
Interest income calculated using the effective interest method	19	81,899	77,176
Interest expense	19	(38,018)	(35,049)
Net interest income		**43,881**	**42,127**
Impairment loss on debt financial assets and loan commitments, net	8	(2,417)	(5,928)
Net fee and commission income	20	4,204	4,717
Net gain from trading in foreign currencies		1,421	4,702
Net gain from foreign exchange translation		3,982	2,707
Other income		1,559	1,628
Operating income		**52,630**	**49,953**
Personnel expenses		(15,979)	(14,637)
Depreciation and amortization		(4,808)	(3,141)
Other provisions (charge)/reversal		(611)	94
Other operating expenses	21	(9,272)	(9,081)
Profit before income tax		**21,960**	**23,188**
Income tax expense	11	(1,930)	(3,018)
Profit and total comprehensive income for the year		**20,030**	**20,170**

*The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See note 2 (e).

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 60.

GEL'000	Share capital	Retained earnings	Total equity
Balance at 1 January 2018	121,372	9,048	130,420
Adjustment on initial application of IFRS 9, net of tax	-	(2,835)	(2,835)
Restated balance as at 1 January 2018	**121,372**	**6,213**	**127,585**
Profit and total comprehensive income for the year	-	20,170	20,170
Balance at 31 December 2018*	**121,372**	**26,383**	**147,755**
Balance at 1 January 2019	121,372	26,383	147,755
Profit and total comprehensive income for the year	-	20,030	20,030
Dividends declared and paid	-	(8,508)	(8,508)
Balance at 31 December 2019	**121,372**	**37,905**	**159,277**

*The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See note 2 (e).

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 60.

GEL'000	Notes	2019	2018*
Cash flows from operating activities			
Interest received		82,740	78,336
Interest paid		(36,945)	(34,363)
Fees and commissions received		7,860	8,435
Fees and commissions paid		(3,638)	(3,641)
Net gain received from trading in foreign currencies		1,421	4,702
Other operating income received		1,559	1,628
Personnel expenses paid		(15,412)	(14,776)
Other operating expenses paid		(8,182)	(9,678)
Income tax paid		(4,014)	-
Cash flows from operating activities before changes in operating assets and liabilities		**25,389**	**30,643**
Changes in:			
Mandatory reserve deposits with the National Bank of Georgia		8,430	(34,809)
Loans to customers		(48,872)	(104,191)
Other assets and repossessed property		(1,235)	1,310
Tax assets		742	-
Deposits and balances from banks		5,031	(16,579)
Current accounts and deposits from customers		(20,589)	89,624
Other liabilities		(8,777)	510
Net cash used in operating activities		**(39,881)**	**(33,492)**
Cash flows from investing activities			
Acquisition of investment securities		(31,956)	(37,099)
Proceeds from redemption of investment securities		28,238	33,381
Acquisition of premises and equipment		(2,143)	(1,567)
Proceeds from disposal of premises and equipment		743	3
Acquisition of intangible assets		(1,521)	(1,248)
Net cash used in investing activities		**(6,639)**	**(6,530)**
Cash flows from financing activities			
Dividends paid		(8,508)	-
Repayment of lease liabilities		(2,023)	-
Receipts of the loans from the financial institutions		50,552	15,837
Repayment of the loans from the financial institutions		(19,097)	(10,920)
Repayment of the subordinated loans		(1,461)	(1,318)
Proceeds from subordinated debt		4,917	14,137
Net cash from financing activities		**24,380**	**17,736**
Effect of exchange rates changes on cash and cash equivalents		10,211	2,400
Net decrease in cash and cash equivalents		**(11,929)**	**(19,886)**
Cash and cash equivalents, beginning	5	68,917	88,803
Cash and cash equivalents, ending	5	**56,988**	**68,917**

*The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See note 2 (e).

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 60.

1. Reporting entity

(a) Georgian business environment

The Group's operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

These consolidated financial statements comprise the financial statements of JSC Terabank (the Bank) and its subsidiary (the Group). The Bank was established in Georgia as a joint stock company on 30 December 2007 under the legal name of JSC Kor Standard Bank. On 23 May 2016 the Bank changed its legal name to JSC Terabank. The Bank's registration number is 204546045.

The Bank's principal activities are accepting deposits, maintenance of customer accounts, credit operations, issuing guarantees, cash and settlement operations, and securities and foreign exchange transactions. The Bank's activities are regulated by the National Bank of Georgia (NBG). The Bank has a general banking license issued by NBG on 25 January 2008.

The Bank's registered legal address is 3, K. Tsamebuli Avenue, Tbilisi 0103, Georgia. The Bank operates through 26 branches; service centres and service desks, which are located in all major cities of Georgia.

The Bank has one subsidiary, Standard Insurance LLC (Legal address: Chavchavadze Av #43), which does not have operations in 2019 and 2018.

As at 31 December 2019 and 2018, the Bank's shareholding structure is as follows:

Owners	**Ownership interest, %**
Sheikh Nahayan Mubarak Al Nahyan	45%
Sheikh Hamdan Bin Zayed bin Sultan Al Nahyan	20%
Sheikh Mohamed Bin Butti Al Hamed	15%
Sheikh Mansour bin Zayed Bin Sultan Al Nahyan	15%
Investment Trading Group LLC	5%
	100%

Related party transactions are described in detail in note 26.

2. Basis of preparation

(a) Statement of compliance

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

This is the first set of the Group's annual financial statements to which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 3 (r).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except, that hedging instruments, measured at fair value through profit or loss.

(c) Functional and presentation currency

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

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

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

(d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgment, estimates and assumptions that affect the application of the Group'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 recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

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

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(e)(i);
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 4.
- Impairment of Goodwill – Note 9;

Assumptions and estimations uncertainty

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: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- Note 9 - impairment of Goodwill;
- Note 29 - COVID 19: impact assessment on expected credit losses.

(e) Changes in accounting policies and presentation

IFRS 16 Leases

The Group initially applied IFRS 16 Leases from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach and has measured the right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of Leases

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii. As a lessee

As a lessee, the Group leases assets. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

The Group presents righ-of –use assets that do not meet the definition of investment property in 'premises and equipment' and lease liabilities in 'Loans from financial institutions and lease liabilities'.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);

iii. Lessor

The Group leases out its own property . The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

iv. Impact on financial statements

Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

’000 GEL	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the financial statements	11,717
Discounted using the incremental borrowing rate at 1 January 2019	(3,050)
Lease liabilities	**8,667**
Right-of-use assets	**8,667**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6,61%.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

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

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

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

(c) 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 Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

Amortised cost and gross carrying amount

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

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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

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

Presentation

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

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

(d) 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 (d)).

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 Group'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 Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

(e) Financial assets and financial liabilities

i. Classification

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group 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 Group makes an assessment of the objective of the business model in which a financial 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 that is considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice, including 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 assets;
– how the performance of the portfolio is evaluated and reported to the Group'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 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, 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 a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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 Group considers:

– Contingent events that would change the amount and timing of cash flows;
– Leverage features;
– Prepayment and extension terms;
– Terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements;
– Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Reclassification

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

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group 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.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the NBG key rate, if the loan agreement entitles the Group to do so. The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group 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 the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Group 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 a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(c)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Group 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.

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

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

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

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

iv. Impairment

See also note 4

The Group 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 Group 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.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: 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 Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

See also Note 4.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

- Loans past due more than 90 days;
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Death of borrower, liquidation of the borrower's company (if legal entity);
- Fraud event or other force-majeure that may affect the company’s solvency.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

Presentation of allowance for ECL in the consolidated statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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 Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

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

(f) Cash and cash equivalents and mandatory reserve with the NBG

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding mandatory reserves, amounts due from credit institutions and other highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

The mandatory reserve deposit is an interest bearing deposit calculated in accordance with regulations issued by the NBG and whose withdrawability is restricted. The mandatory reserve deposit with the NBG is not considered to be a cash equivalent, due to restrictions on its withdrawability.

(g) Loans to customers

'Loans to customers' caption in the consolidated statement of financial position include debt financial assets measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

(h) Investment securities

The 'investment securities' caption in the statement of financial position includes: debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(i) Repossessed property

Repossessed property represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at net book value of respective loan when acquired and included in premises and equipment, other financial assets or inventories depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

(j) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the specific identification method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured as follows:

– at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(e)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

– the Group recognises a loss allowance (see Note 3(e)(iv));

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(m) Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Premises	50 years
Office and computer equipment	5-15 years
Vehicles	5 years
Furniture, fixtures and other fixed assets	5 years
Leasehold improvements	5-10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(o) Intangible assets other than goodwill

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

(p) Share capital

Share capital

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

Dividends

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

(q) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

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

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

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

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

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

Deferred tax

Deferred tax is recognised 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 not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

(r) Leases

Policy applicable before 1 January 2019

Operating leases were not recognised in the Group’s consolidated statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

The Group did not have any finance leases under IAS 17.

Policy applicable from 1 January 2019

Group recognise a right-of-use asset and a lease liability at a 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.

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 the lease liability.

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or in assessment of whether the Group will exercise extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset, or the amount is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets as separate line-item and lease liabilities in 'other liabilities' in the statement of financial position.

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 these leases as an expense on a straight-line basis over the lease term.

(s) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 with earlier application permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*

4. Financial risk review

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 23.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

The Group uses the following criteria for determining whether there has been a significant increase in credit risk:

- The exposure is overdue for more than 30 days for collectively assessed loans and 15 days for individually significant clients.
- Its financial standing deteriorated and the exposure has been restructured;
- Other weaknesses that the bank deems to have negative effect on borrower's performance. (e.g. watch list clients)

Generating the term structure of PD

Overdue days are primary input into the determination of the term structure of PD for all exposures in Markov's model of migration matrices. Migration matrices are constructed using historical data over the past 60 months.

Determining whether credit risk has increased significantly

The Group 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. 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.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Definition of default

The bank considers loan to be in default if any of the following criteria are met:

- Loans past due more than 90 days;
- Bankruptcy proceedings and/or legal proceedings that may affect the company's ability to service its obligations;
- Death of borrower, liquidation of the borrower's company (if legal entity);
- Fraud event or other force-majeure that may affect the borrower's ability to repay the loan.

Default status is assessed regularly (monthly). Loan remains as default if during its lifetime it was under default at least once.

The Group should have a track record on which criteria loan was considered as default.

Incorporation of forward-looking information

The Group 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 Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the bank operates, such as the National Bank of Georgia.

The Group has identified and documented key driver of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk.

Among the tested macroeconomic parameters such as inflation, currency depreciation, only GDP was proved to have statistically significant influence on portfolio probabilities of default. Historical correlations over the past 3 years showed the high relationship between GDP and PD. When GDP was growing PD was decreasing respectively. Based the historical correlation PD is adjusted by using Vasicek model

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 GDP.

GDP is expected to grow by 4.5 % in 2020 according to National Bank of Georgia.

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 has been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value.

The bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. Under the Group's restructuring policy, the loan is restructured if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Restructuring is a qualitative indicator of significant increase in credit risk, as well as default and credit impairment. So the bank considers such client as non-standard and moves to stage 2.

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 Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Vintage approach is used to determine the percentage of recovered portfolio of defaulted loans through its lifetime. Such loans are grouped by the default months and repaid exposure is linked to each group. Statistical results are used to forecast the future recoveries for the newly defaulted portfolios. Finally, cash flows are discounted by the effective interest rates and divided by the default portfolio to calculate LGD.

For loans collateralized by deposits (cash covers) LGD is calculated if the currency is depreciated by 20%. In case of gold pawn loans, loss is equal to the difference between the exposure and gold collateral revaluated by the ounce price of the last twelve months.

EAD represents the expected exposure in the event of a default. Exposure at default calculated for the scheduled loans, overdrafts and credit cards separately for each lifetime period. Historical behavior is observed to calculate the average default periods from the disbursement of the loan. Testing default within years showed that on average mid-year is the point of default. So that point is used to calculate the EAD by subtracting the scheduled principal repayments till the forecasted overdue date and add three months interest accrued from overdue date till the date when the loan becomes default.

EAD for Overdrafts and credit cards is calculated directly from the historical data, for this purposes utilization rates - weight of disbursed exposure from the approved limit - of all defaulted overdrafts and credit cards are calculated.

Expected credit loss allowance

The following tables show reconciliations from the opening to the closing balances of the expected credit loss allowance by class of financial instruments.

	2019				2018			
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	3,568	3,619	24,129	31,316	4,345	3,081	29,785	37,211
Transfer to Stage 1	209	(52)	(157)	-	138	(136)	(2)	-
Transfer to Stage 2	(91)	398	(307)	-	(69)	161	(92)	-
Transfer to Stage 3	(72)	(1,498)	1,570	-	(126)	(678)	804	-
Net remeasurement of loss allowance	(2,002)	548	1,159	(295)	(3,092)	350	5,757	3,015
New financial assets originated or purchased	3,854	-	-	3,854	3,962	-	-	3,962
Transfer to stage 2	(1,359)	1,359	-	-	(841)	841	-	-
Transfer to stage 3	(289)	-	289	-	(749)	-	749	-
Write-offs	-	-	(3,767)	(3,767)	-	-	(12,872)	(12,872)
Balance at 31 December	**3,818**	**4,374**	**22,916**	**31,108**	**3,568**	**3,619**	**24,129**	**31,316**

	2019				2018			
GEL'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Business loans								
Balance at 1 January	778	1,207	4,313	6,298	1,277	1,215	4,563	7,055
Transfer to Stage 1	8	(8)	-	-	15	(15)	-	-
Transfer to Stage 2	(45)	316	(271)	-	(27)	27	-	-
Transfer to Stage 3	(23)	(758)	781	-	(44)	(315)	359	-
Net remeasurement of loss allowance	(412)	824	(286)	126	(979)	143	2,209	1,373
New financial assets originated or purchased	2,845	-	-	2,845	843	-	-	843
Transfer to stage 2	(1,169)	1,169	-	-	(152)	152	-	-
Transfer to stage 3	(101)	-	101	-	(155)	-	155	-
Write-offs	-	-	(825)	(825)	-	-	(2,973)	(2,973)
Balance at 31 December	**1,881**	**2,750**	**3,813**	**8,444**	**778**	**1,207**	**4,313**	**6,298**

GEL'000	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 Total	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total
Loans to customers at amortised cost – Consumer loans								
Balance at 1 January	2,454	2,134	6,531	11,119	2,633	1,570	6,215	10,418
Transfer to Stage 1	201	(44)	(157)	-	29	(27)	(2)	-
Transfer to Stage 2	(41)	77	(36)	-	(38)	130	(92)	-
Transfer to Stage 3	(46)	(698)	744	-	(80)	(363)	443	-
Net remeasurement of loss allowance	(1,439)	(168)	935	(672)	(1,736)	135	1,707	106
New financial assets originated or purchased	752	-	-	752	2,929	-	-	2,929
Transfer to stage 2	(124)	124	-	-	(689)	689	-	-
Transfer to stage 3	(156)	-	156	-	(594)	-	594	-
Write-offs	-	-	(2,664)	(2,664)	-	-	(2,334)	(2,334)
Balance at 31 December	**1,601**	**1,425**	**5,509**	**8,535**	**2,454**	**2,134**	**6,531**	**11,119**

GEL'000	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 Total	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total
Loans to customers at amortised cost – Mortgage loans								
Balance at 1 January	312	278	776	1,366	419	193	1,155	1,767
Transfer to Stage 1	-	-	-	-	1	(1)	-	-
Transfer to Stage 2	(5)	5	-	-	(4)	4	-	-
Transfer to Stage 3	(3)	(42)	45	-	(1)	-	1	-
Net remeasurement of loss allowance	(127)	(108)	(50)	(285)	(293)	82	(323)	(534)
New financial assets originated or purchased	257	-	-	257	190	-	-	190
Transfer to Stage 2	(66)	66	-	-	-	-	-	-
Transfer to Stage 3	(32)	-	32	-	-	-	-	-
Write-offs	-	-	(25)	(25)	-	-	(57)	(57)
Balance at 31 December	**336**	**199**	**778**	**1,313**	**312**	**278**	**776**	**1,366**

GEL'000	2019 Stage 1	2019 Stage 2	2019 Stage 3	2019 Total	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total
Loans to customers at amortised cost – Pawn loans								
Balance at 1 January	24	-	12,509	12,533	16	103	17,852	17,971
Transfer to Stage 1	-	-	-	-	93	(93)	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	(1)	-	1	-
Net remeasurement of loss allowance	(24)	-	560	536	(84)	(10)	2,164	2,070
Write-offs	-	-	(253)	(253)	-	-	(7,508)	(7,508)
Balance at 31 December	**-**	**-**	**12,816**	**12,816**	**24**	**-**	**12,509**	**12,533**

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

	2019				
GEL'000	**Loans to customers at amortised cost - Business loans**	**Loans to customers at amortised cost - Consumer loans**	**Loans to customers at amortised cost - Mortgage loans**	**Loans to customers at amortised cost - Pawn loans**	**Total**
Net remeasurement of loss allowance	126	(672)	(285)	536	(295)
New financial assets originated or purchased	2,845	752	257	-	3,854
Subtotal	***2,971***	***80***	***(28)***	***536***	***3,559***
Recoveries of amounts previously written off	(1)	(1,116)	(25)	-	(1,142)
Total	**2,970**	**(1,036)**	**(53)**	**536**	**2,417**

	2018				
GEL'000	**Loans to customers at amortised cost - Business loans**	**Loans to customers at amortised cost - Consumer loans**	**Loans to customers at amortised cost - Mortgage loans**	**Loans to customers at amortised cost - Pawn loans**	**Total**
Net remeasurement of loss allowance	1,373	106	(534)	2,070	3,015
New financial assets originated or purchased	843	2,929	190	-	3,962
Subtotal	***2,216***	***3,035***	***(344)***	***2,070***	***6,977***
Recoveries of amounts previously written off	(15)	(965)	(69)	-	(1,049)
Total	**2,201**	**2,070**	**(413)**	**2,070**	**5,928**

Expected credit losses including movement during 2019 is disclosed in note 7.

The significant changes in the gross carrying amount of the Loans to customers' portfolio are further explained below.

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost								
Balance at 1 January	634,712	17,917	46,017	698,646	514,000	27,558	52,990	594,548
Transfer to Stage 1	584	(169)	(415)	-	5,783	(5,780)	(3)	-
Transfer to Stage 2	(11,370)	12,329	(959)	-	(3,696)	3,858	(162)	-
Transfer to Stage 3	(8,416)	(7,545)	15,961	-	(8,353)	(2,387)	10,740	-
New financial assets originated or purchased	400,220	-	-	400,220	436,917	-	-	436,917
Transfer to Stage 2	(5,667)	5,667	-	-	(2,666)	2,666	-	-
Transfer to Stage 3	(658)	-	658	-	(1,170)	-	1,170	-
Repayments and other movements (including foreign currency revaluations)	(304,898)	(5,856)	(9,518)	(320,272)	(306,103)	(7,998)	(5,846)	(319,947)
Write-offs	-	-	(3,767)	(3,767)	-	-	(12,872)	(12,872)
Balance at 31 December	**704,507**	**22,343**	**47,977**	**774,827**	**634,712**	**17,917**	**46,017**	**698,646**

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Business loans								
Balance at 1 January	271,632	8,329	9,683	289,644	214,093	12,405	8,509	235,007
Transfer to Stage 1	20	(20)	-	-	230	(230)	-	-
Transfer to Stage 2	(6,594)	7,371	(777)	-	(1,262)	1,262	-	-
Transfer to Stage 3	(3,897)	(5,478)	9,375	-	(3,008)	(1,129)	4,137	-
New financial assets originated or purchased	284,679	-	-	284,679	193,604	-	-	193,604
Transfer to Stage 2	(4,675)	4,675	-	-	(399)	399	-	-
Transfer to Stage 3	(168)	-	168	-	(349)	-	349	-
Repayments and other movements (including foreign currency revaluations)	(150,530)	(1,327)	(2,918)	(154,775)	(131,277)	(4,378)	(339)	(135,994)
Write-offs	-	-	(825)	(825)	-	-	(2,973)	(2,973)
Balance at 31 December	**390,467**	**13,550**	**14,706**	**418,723**	**271,632**	**8,329**	**9,683**	**289,644**

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Consumer loans								
Balance at 1 January	238,726	8,603	12,360	259,689	174,650	8,252	11,608	194,510
Transfer to Stage 1	564	(149)	(415)	-	113	(110)	(3)	-
Transfer to Stage 2	(3,500)	3,682	(182)	-	(1,897)	2,059	(162)	-
Transfer to Stage 3	(3,877)	(1,925)	5,802	-	(5,015)	(1,258)	6,273	-
New financial assets originated or purchased	73,441	-	-	73,441	165,338	-	-	165,338
Transfer to Stage 2	(774)	774	-	-	(2,267)	2,267	-	-
Transfer to Stage 3	(208)	-	208	-	(821)	-	821	-
Repayments and other movements (including foreign currency revaluations)	(117,978)	(4,262)	(3,382)	(125,622)	(91,375)	(2,607)	(3,843)	(97,825)
Write-offs	-	-	(2,664)	(2,664)	-	-	(2,334)	(2,334)
Balance at 31 December	**186,394**	**6,723**	**11,727**	**204,844**	**238,726**	**8,603**	**12,360**	**259,689**

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Mortgage loans								
Balance at 1 January	88,004	985	1,757	90,746	56,116	804	2,547	59,467
Transfer to Stage 1	-	-	-	-	7	(7)	-	-
Transfer to Stage 2	(1,276)	1,276	-	-	(537)	537	-	-
Transfer to Stage 3	(642)	(142)	784	-	(289)	-	289	-
New financial assets originated or purchased	36,822	-	-	36,822	56,571	-	-	56,571
Transfer to Stage 2	(218)	218	-	-	-	-	-	-
Transfer to Stage 3	(282)	-	282	-	-	-	-	-
Repayments and other movements (including foreign currency revaluations)	(25,729)	(267)	(295)	(26,291)	(23,864)	(349)	(1,022)	(25,235)
Write-offs	-	-	(25)	(25)	-	-	(57)	(57)
Balance at 31 December	**96,679**	**2,070**	**2,503**	**101,252**	**88,004**	**985**	**1,757**	**90,746**

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Pawn loans								
Balance at 1 January	36,350	-	22,217	58,567	69,141	6,097	30,326	105,564
Transfer to Stage 1	-	-	-	-	5,433	(5,433)	-	-
Transfer to Stage 3	-	-	-	-	(41)	-	41	-
New financial assets originated or purchased	5,278	-	-	5,278	21,404	-	-	21,404
Repayments and other movements (including foreign currency revaluations)	(10,661)	-	(2,923)	(13,584)	(59,587)	(664)	(642)	(60,893)
Write-offs	-	-	(253)	(253)	-	-	(7,508)	(7,508)
Balance at 31 December	**30,967**	**-**	**19,041**	**50,008**	**36,350**	**-**	**22,217**	**58,567**

Credit quality analysis

Information on the analysis of credit quality of Loans to customers is given in the note 7 (d).

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

Bank holds a portfolio of debt securities of Government of Georgia. As at 31 December 2019 the Bank classified those securities under Stage 1 for the purpose of expected credit loss assessment (31 December 2018: Stage 1).

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2019:

	2019			Fair value of collateral held			
GEL'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Real estate**	**Precious metals**	**Other collateral (motor vehicles, equipment)**	**Total**
Business loans	14,706	(3,813)	10,893	10,322	-	571	10,893
Consumer loans	11,727	(5,509)	6,218	5,905	-	35	5,940
Mortgage loans	2,503	(778)	1,725	1,723	-	-	1,723
Gold Pawn loans	19,041	(12,816)	6,225	35	6,002	-	6,037
Total credit-impaired loans to customers	**47,977**	**(22,916)**	**25,061**	**17,985**	**6,002**	**606**	**24,593**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018:

	2018			Fair value of collateral held			
GEL'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Real estate**	**Precious metals**	**Other collateral (motor vehicles, equipment)**	**Total**
Business loans	9,683	(4,313)	5,370	4,632	-	738	5,370
Consumer loans	12,360	(6,531)	5,829	5,333	-	57	5,390
Mortgage loans	1,757	(776)	981	981	-	-	981
Gold Pawn loans	22,217	(12,509)	9,708	198	9,105	-	9,303
Total credit-impaired loans to customers	**46,017**	**(24,129)**	**21,888**	**11,144**	**9,105**	**795**	**21,044**

5. Cash and cash equivalents

GEL'000	2019	2018
Cash on hand	**32,713**	**32,080**
Nostro accounts with the NBG	**16,397**	**14,140**
Current accounts with other credit institutions		
- rated A- to A+	194	901
- rated BBB to BBB+	1,220	17,468
- rated below B+	5,615	4,188
- not rated	849	140
Total current accounts with other credit institutions	**7,878**	**22,697**
Total cash and cash equivalents	**56,988**	**68,917**

No cash and cash equivalents are past due or impaired. As at 31 December 2019 the Group has one bank (2018: one bank), whose balance exceeds 10% of equity. The gross value of the balance as at 2019 was GEL 16,397 thousand (2018: GEL 17,415 thousand). As at 31 December 2019 the Group allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1). Management estimates that ECL is immaterial at reporting dates.

6. Investment securities

	2019 GEL'000	2018 GEL'000
Held by the Bank		
Investment Securities		
- Government securities of the Ministry of Finance of Georgia	57,051	53,223
- Certificates of deposits of the National Bank of Georgia	1,993	3,622
Total	**59,044**	**56,845**
Expected credit losses	(35)	(35)
Total net Investment Securities	**59,009**	**56,810**

Investment securities of GEL 59,009 thousand (2018: GEL 56,810 thousand) represent debt securities with the Government of Georgia and Certificates of deposits of the National Bank of Georgia.

All investment securities are denominated in GEL and their contractual interest rates and maturities are as follows:

	31 December 2019		31 December 2018	
	Nominal interest rate, %	**Maturity**	**Nominal interest rate, %**	**Maturity**
Investment Securities	7 – 14	2020 - 2023	7 – 14	2019 - 2023

No investment securities are past due or impaired. As at 31 December 2019 the Group allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1).

Movements in the credit loss allowance of investment securities measured at amortized cost for the year ended 31 December 2019 was GEL 0.1 thousand.

7. Loans to customers

GEL'000	2019	2018
Business loans	418,723	289,644
Consumer loans	204,844	259,689
Mortgage loans	101,252	90,746
Gold pawn loans	50,008	58,567
Gross loans to customers	**774,827**	**698,646**
Less: allowance for impairment	(31,108)	(31,316)
Net loans to customers	**743,719**	**667,330**

(a) Industry and geographical analysis of the loan portfolio

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

GEL'000	2019	2018
Individuals	271,423	350,436
Trading and service	340,194	153,907
Construction	62,915	65,297
Gold pawn	50,008	58,567
Agriculture and food processing	18,573	22,712
Energy	17,740	18,182
Health care	6,987	15,901
Financial institutions	978	6,529
Other	6,009	7,115
Gross loans to customers	**774,827**	**698,646**

Loans of GEL 12,526 thousand are pledged under the loan received from NBG. See note 12.

(b) Significant credit exposures

As at 31 December 2019 and 2018 none of the Group's borrower's balance exceeds 10% of equity.

As at 31 December 2019, the Group had a concentration of loans represented by GEL 74,998 thousand due from the ten largest third party borrowers (2018: GEL 66,103 thousand). An allowance of GEL 6,958 thousand (2018: GEL 6,782 thousand) was recognised against these loans.

(c) Movement in allowance for impairment of loans to customers

GEL'000	Business loans	Consumer loans	Mortgage loans	Gold pawn loans	Total
At 1 January 2019	6,298	11,119	1,366	12,533	31,316
Charge/(reversal) for the year	2,970	(1,036)	(53)	536	2,417
Recoveries	1	1,116	25	-	1,142
Amounts written off	(825)	(2,664)	(25)	(253)	(3,767)
At 31 December 2019	**8,444**	**8,535**	**1,313**	**12,816**	**31,108**
Individual impairment	2,800	2,999	344	12,816	18,959
Collective impairment	5,644	5,536	969	-	12,149
	8,444	**8,535**	**1,313**	**12,816**	**31,108**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**12,697**	**7,490**	**1,555**	**19,042**	**40,784**

GEL'000	Business loans	Consumer loans	Mortgage loans	Gold pawn loans	Total
At 1 January 2018	5,642	8,660	1,961	18,343	34,606
Adjustment on initial application of IFRS 9	1,413	1,758	(194)	(372)	2,605
Restated balance as at 1 January	**7,055**	**10,418**	**1,767**	**17,971**	**37,211**
Charge/(reversal) for the year	2,201	2,070	(413)	2,070	5,928
Recoveries	15	965	69	-	1,049
Amounts written off	(2,973)	(2,334)	(57)	(7,508)	(12,872)
At 31 December 2018	**6,298**	**11,119**	**1,366**	**12,533**	**31,316**
Individual impairment	3,985	4,234	426	12,533	21,178
Collective impairment	2,313	6,885	940	-	10,138
	6,298	**11,119**	**1,366**	**12,533**	**31,316**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**8,447**	**8,570**	**1,191**	**22,217**	**40,425**

(d) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2019 and 31 December 2018:

	31 December 2019				31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Business loans								
Not overdue	385,132	9,448	5,218	399,798	266,059	2,733	3,252	272,044
Overdue less than 30 days	5,335	1,898	327	7,560	5,573	-	1,270	6,843
Overdue 30-90 days	-	2,204	1,033	3,237	-	5,596	997	6,593
Overdue more than 90 days	-	-	8,128	8,128	-	-	4,164	4,164
Total business loans, gross	**390,467**	**13,550**	**14,706**	**418,723**	**271,632**	**8,329**	**9,683**	**289,644**
Loss allowance	**(1,881)**	**(2,750)**	**(3,813)**	**(8,444)**	**(778)**	**(1,207)**	**(4,313)**	**(6,298)**
Carrying amount	**388,586**	**10,800**	**10,893**	**410,279**	**270,854**	**7,122**	**5,370**	**283,346**

	31 December 2019				31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Consumer loans								
Not overdue	182,284	4,274	3,506	190,064	234,023	7,043	3,092	244,158
Overdue less than 30 days	4,110	431	1,469	6,010	4,703	203	1,576	6,482
Overdue 30-90 days	-	2,018	993	3,011	-	1,348	555	1,903
Overdue more than 90 days	-	-	5,759	5,759	-	9	7,137	7,146
Total consumer loans, gross	**186,394**	**6,723**	**11,727**	**204,844**	**238,726**	**8,603**	**12,360**	**259,689**
Loss allowance	**(1,601)**	**(1,425)**	**(5,509)**	**(8,535)**	**(2,454)**	**(2,134)**	**(6,531)**	**(11,119)**
Carrying amount	**184,793**	**5,298**	**6,218**	**196,309**	**236,272**	**6,469**	**5,829**	**248,570**

	31 December 2019				31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Mortgage loans								
Not overdue	94,472	1,598	1,054	97,124	87,338	744	1,295	89,377
Overdue less than 30 days	2,207	188	829	3,224	666	-	-	666
Overdue 30-90 days	-	284	156	440	-	241	77	318
Overdue more than 90 days	-	-	464	464	-	-	385	385
Total mortgage loans, gross	**96,679**	**2,070**	**2,503**	**101,252**	**88,004**	**985**	**1,757**	**90,746**
Loss allowance	**(336)**	**(199)**	**(778)**	**(1,313)**	**(312)**	**(278)**	**(776)**	**(1,366)**
Carrying amount	**96,343**	**1,871**	**1,725**	**99,939**	**87,692**	**707**	**981**	**89,380**

	31 December 2019				31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost – Pawn loans								
Not overdue	30,967	-	225	31,192	36,253	-	114	36,367
Overdue less than 30 days	-	-	-	-	97	-	-	97
Overdue more than 90 days	-	-	18,816	18,816	-	-	22,103	22,103
Total pawn loans, gross	**30,967**	**-**	**19,041**	**50,008**	**36,350**	**-**	**22,217**	**58,567**
Loss allowance	**-**	**-**	**(12,816)**	**(12,816)**	**(24)**	**-**	**(12,509)**	**(12,533)**
Carrying amount	**30,967**	**-**	**6,225**	**37,192**	**36,326**	**-**	**9,708**	**46,034**

(e) Key assumptions and judgments for estimating loan impairment

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

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

Change in these estimate by 10% increase/decrease could affect the expected credit loss on loans to customers for 2019 as follows:

– probability of default (PD) – GEL 779 thousand;
– loss given default (LGD) – GEL 1,195 thousand;
– exposure at default (EAD) – GEL 779 thousand.

(f) Analysis of collateral and other credit enhancements

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests borrowers to provide it.

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

Management ensures, that major part of the business loans, gold pawn loans and mortgage loans are fully covered by the market value of the collateral.

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

GEL'000	**Net exposures**					
At 31 December 2019	**Real Estate**	**Cash collateral**	**Other**	**No collateral**	**Precious metals**	**Total**
Business	352,162	9,095	12,444	36,535	43	410,279
Consumer	145,607	8,137	1,771	40,794	-	196,309
Mortgage	99,177	732	-	30	-	99,939
Gold pawn	35	-	-	-	37,157	37,192
Total	**596,981**	**17,964**	**14,215**	**77,359**	**37,200**	**743,719**

GEL'000	**Net exposures**					
At 31 December 2018	**Real Estate**	**Cash collateral**	**Other**	**No collateral**	**Precious metals**	**Total**
Business	231,644	20,261	30,182	701	558	283,346
Consumer	199,961	2,872	1,739	43,998	-	248,570
Mortgage	87,247	1,714	160	259	-	89,380
Gold pawn	1,114	-	-	-	44,920	46,034
Total	**519,966**	**24,847**	**32,081**	**44,958**	**45,478**	**667,330**

The tables above excludes overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. The majority of the loans with no collateral represents payroll loans, which include loans secured with personal guarantees.

(g) Repossessed collateral

Repossessed property mainly represents real estate assets acquired by the Group in settlement of overdue loans. These assets are treated as inventories, are recognized at net book value of the respective loan when acquired and subsequently measured at the lower of cost and net realizable value. The Group's policy is to sell the repossessed property as soon as it is practicable.

During 2019 the Group has an addition of repossessed property with the value of GEL 2,327 thousand (2018: GEL 219 thousand) and sales of repossessed property with the value of GEL 2,550 thousand (2018: GEL 1,936 thousand).

8. Premises and equipment

GEL'000	Land	Premises	Office and computer equipment	Vehicles	Furniture, fixtures and other fixed assets	Leasehold improvements	Right of use assets	Total
Cost								
As at 1 January 2018	449	15,453	7,163	697	8,539	3,270	-	35,571
Additions	-	106	97	198	901	265	-	1,567
Disposals	-	-	-	(178)	-	-	-	(178)
As at 31 December 2018	**449**	**15,559**	**7,260**	**717**	**9,440**	**3,535**	**-**	**36,960**
As at 1 January 2019	449	15,559	7,260	717	9,440	3,535	-	36,960
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	-	-	8,667	8,667
Adjusted balance at 1 January 2019	449	15,559	7,260	717	9,440	3,535	8,667	45,627
Additions	764	358	42	291	575	113	-	2,143
Disposals	-	-	-	-	-	(92)	(854)	(945)
As at 31 December 2019	**1,213**	**15,917**	**7,302**	**1,008**	**10,015**	**3,556**	**7,813**	**46,824**
Accumulated depreciation								
As at 1 January 2018	-	3,824	4,587	657	5,970	1,791	-	16,829
Depreciation charge	-	280	547	48	733	239	-	1,847
Disposals	-	-	-	(176)	-	-	-	(176)
As at 31 December 2018	**-**	**4,104**	**5,134**	**529**	**6,703**	**2,030**	**-**	**18,500**
As at 1 January 2019	-	4,104	5,134	529	6,703	2,030	-	18,500
Depreciation charge	-	277	471	87	824	257	1,452	3,368
Disposals	-	-	-	-	-	(45)	(158)	(203)
As at 31 December 2019	**-**	**4,381**	**5,605**	**616**	**7,527**	**2,242**	**1,294**	**21,665**
Net book value								
1 January 2018	**449**	**11,629**	**2,576**	**40**	**2,569**	**1,479**	**-**	**18,742**
31 December 2018	**449**	**11,455**	**2,126**	**188**	**2,737**	**1,505**	**-**	**18,460**
31 December 2019	**1,213**	**11,536**	**1,697**	**392**	**2,488**	**1,314**	**6,519**	**25,159**

9. Goodwill

Goodwill of GEL 20,374 thousand fully relates to the acquisition of JSC Standard Bank in 2008 by JSC Kor.

The Group is considered as a one cash-generating unit (the CGU) for the impairment test purposes. The recoverable amount of the CGU is based on the value in use, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represented management's assessment of future trends in the banking industry, projected growth rate of the country's economy and were based on historical data from both external and internal sources.

In percent	**2019**	**2018**
Discount rate	11.2%	13.3%
Terminal value growth rate	4.8%	5.2%
Budgeted growth rate of free cash flows (average of next five years)	4.8%	4.8%

The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD.

The estimated recoverable amount of the CGU exceeded its carrying amount. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

10. Other assets

GEL'000	**2019**	**2018**
Settlement on plastic card	307	74
Guarantee deposits placed in banks	3,312	1,755
Receivables	971	1,149
Other	45	51
Total other financial assets	**4,635**	**3,029**
Prepayment for the purchase of fixed asset	1,085	192
Other	1,027	1,197
Total other assets	**6,747**	**4,418**

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

The table below shows the fair values of foreign currency forward contract recorded in other assets (31 December 2018: other assets) together with their notional amounts.

	31 December 2019		**31 December 2018**	
GEL'000	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Foreign currency forward contract				
Sell USD buy GEL	10,723	458	42,123	334
Sell EUR buy USD	36,691	(229)	-	-

11. Taxation

GEL '000	2019	2018
Current tax expense		
Current year	(2,810)	(1,571)
Movement in temporary differences due to origination and reversal of temporary differences	880	(1,447)
Total income tax expense	**(1,930)**	**(3,018)**

In 2019, the applicable tax rate for current and deferred tax is 15% (2018: 15%).

Reconciliation of effective tax rate:

GEL'000	2019	%	2018	%
Profit before tax	**21,960**		**23,188**	
Income tax at the applicable tax rate	3,294	15	3,478	15
Change in unrecognised deferred tax asset	-	-	(193)	(1)
Change in unrecognised deferred tax liabilities due to change in the legislation (note 3)	(760)	(1)	337	1
Net non-taxable income	(604)	(6)	(604)	(3)
	1,930	**8**	**3,018**	**12**

Movement in temporary differences during the year

GEL'000	1 January 2019	Recognised in profit or loss	31 December 2019
Loans to customers	(481)	85	(396)
Goodwill and other intangible assets	118	(144)	(26)
Other	(1,360)	939	(421)
	(1,723)	**880**	**(843)**

GEL'000	1 January 2018	Recognised in profit or loss	31 December 2018
Loans to customers	(941)	460	(481)
Goodwill and other intangible assets	425	(307)	118
Tax loss carry-forwards	944	(944)	-
Other	(704)	(656)	(1,360)
	(276)	**(1,447)**	**(1,723)**

According to Georgian government's latest announcements, the Banking sector's transition to the new taxation legislation system (Note 3) will be effective since 1 January 2023.

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12. Loans from financial institutions and lease liabilities

’000 GEL	Currency	Year of maturity	31 December 2019	31 December 2018
Black Sea Trade and Development Bank (BSTDB)	USD	2020	14,830	11,995
Nederlandse FinancieringsMaatschappij Voor Ontwikkelingslanden N.V. (FMO)	GEL	2023	25,117	31,363
responsAbility SICAV (Lux)	USD	2023	4,606	5,368
Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	EUR	2025	44,358	20
Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	USD	2019	-	36
COMMERZBANK	EUR	2020	6,505	-
Loan from the NBG	GEL	2020	10,015	23,023
Lease liabilities	USD	2020-2028	7,201	-
Total			**112,632**	**71,805**

Due to liquidity management purposes the Bank received short term loans from the National Bank of Georgia with original maturities of less than 3 months comprising GEL 10,000 thousand. The loan is received by pledging Loans to customers eligible for collateral with amount of GEL 12,526 thousand. See note 7.

The Group has complied with all the financial covenants stipulated by lending agreements as at 31 December 2019 and 31 December 2018.

13. Subordinated loans

’000 GEL	Currency	Year of maturity	31 December 2019	31 December 2018
Standard Capital Georgia Ltd	USD	2025	5,189	5,650
Standard Capital Georgia Ltd	USD	2026	4,053	4,324
Dhabi Contracting LLC	USD	2025	30,121	21,417
Dhabi Contracting LLC	USD	2024	8,605	14,724
Subordinated loan from individuals	USD	2025	3,413	-
Subordinated loan from an individual	EUR	2025	1,605	-
Total			**52,986**	**46,115**

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

None of the subordinated loans are secured by the Group’s assets.

Loan of Standard Capital Georgia LTD and Dhabi Contracting LLC exceeds 10% of total Subordinated loans. Interest rate is 11% for loans of Standard Capital Georgia LTD; and, 4%-6% for loans of Dhabi Contracting LLC.

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

The table below sets out an analysis of the movements in liabilities that are reported as financing in the statement of cash flows for the period presented.

GEL'000	Loans from financial institutions	Lease liabilities	Subordinated loans	Equity	Total
Balance at 1 January 2019	**71,805**	**8,667**	**46,115**	**147,755**	**274,342**
Cash flow from financing activities	**31,455**	**(2,023)**	**3,456**	**(8,508)**	**24,380**
Receipts of loans	50,552	-	4,917	-	55,469
Repayment of the loans	(19,097)	-	(1,461)	-	(20,558)
Payment of lease liabilities	-	(2,023)		-	(2,023)
Dividend paid	-	-		(8,508)	(8,508)
Foreign exchange adjustments	**1,803**	**741**	**3,414**	**-**	**5,958**
Net movement on interest including foreign currency gain/(loss)	**368**	**519**	**1**	**-**	**888**
Disposals	**-**	**(323)**	**-**	**-**	**(323)**
Modification on lease liabilities	**-**	**(380)**	**-**	**-**	**(380)**
Total equity-related other changes	**-**	**-**	**-**	**20,030**	**20,030**
Balance at 31 December 2019	**105,431**	**7,201**	**52,986**	**159,277**	**324,895**

GEL'000	Loans from financial institutions	Subordinated loans	Total
Balance at 1 January 2018	**65,214**	**31,706**	**96,920**
Cash flow from financing activities	**4,917**	**12,819**	**17,736**
Receipts of loans	15,837	14,137	29,974
Repayment of the loans	(10,920)	(1,318)	(12,238)
Foreign exchange adjustments	**1,175**	**1,593**	**2,768**
Net movement on interest including foreign currency loss/(gain)	**499**	**(3)**	**496**
Balance at 31 December 2018	**71,805**	**46,115**	**117,920**

15. Deposits and balances from banks

GEL'000	2019	2018
Time deposits from banks	5,457	-
Short-term placements of other banks	65	225
Total deposits and balances from banks	**5,522**	**225**

Time deposits from banks in 2019 includes EUR deposit from IsBank (GEL 5,457 thousand).

16. Current accounts and deposits from customers

GEL'000	2019	2018
Current accounts	206,210	200,073
Time deposits	496,938	483,193
Total current account and deposits from customers	**703,148**	**683,266**
Held as a security against guarantees and letters of credit issued	**10,692**	**18,844**

As at 31 December 2019, the Group has 4 customers (2018: 5 customers), whose balances individually exceed 10% of equity. These balance as at 31 December 2019 are GEL 98,634 thousand (2018: GEL 108,119 thousand).

GEL'000	2019	2018
Private enterprises	301,999	342,972
Individuals	371,383	278,409
State and budgetary organizations	29,766	61,885
Total current account and deposits from customers	**703,148**	**683,266**

An analysis of amounts due to customers by economic sector is as follows:

GEL'000	2019	2018
Individuals	371,383	278,409
Trade and service	100,350	126,452
Construction	58,285	62,966
State and budgetary organizations	29,766	61,885
Insurance	7,180	17,997
Non-banking credit organizations	5,439	11,323
Energy	1,321	9,580
Mining	698	3,433
Transport and communication	315	554
Other	128,411	110,667
Total current account and deposits from customers	**703,148**	**683,266**

17. Other liabilities

GEL'000	2019	2018
Settlement on plastic card and money transfer operations	1,566	7,966
Accrued employee benefit costs	3,757	2,625
Financial liabilities from services received	625	968
Other	160	134
Total other financial liabilities	**6,108**	**11,693**
Provisions for guarantees and credit related commitments	472	206
Other provisions	2,691	2,322
Other	365	245
Total other liabilities	**9,636**	**14,466**

18. Equity

Number of shares	**Ordinary shares**	
	2019	**2018**
In issue at 1 January	1,213,720	1,213,720
Issued in cash, fully paid	-	-
In issue at 31 December, fully paid	**1,213,720**	**1,213,720**
Authorised shares - par value (in GEL)	**100**	**100**

All ordinary shares rank equally with regard to the Bank's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Bank. In 2019 the Group declared and paid dividends in amount of GEL 8,508 thousand (2018: nil).

19. Net interest income calculated using the effective interest method

GEL'000	**2019**	**2018**
Loans to customers	76,064	72,049
Investment securities	4,332	4,040
Amounts due from other banks	1,503	1,087
Total interest income	**81,899**	**77,176**
Amounts due to customers	27,223	25,733
Amounts due to credit institutions	7,666	7,115
Subordinated debts	3,129	2,201
Total interest expense	**38,018**	**35,049**
Net interest income	**43,881**	**42,127**

20. Fee and commission income and expenses

GEL'000	**2019**	**2018**
Plastic card transactions	3,251	2,892
Settlement transactions	1,630	1,911
Servicing of current accounts	934	822
Cash transactions	654	720
Other	251	269
Total fee and commission income from contracts with customers	**6,720**	**6,614**
Financial guarantee contracts	1,140	1,821
Total fee and commission income	**7,860**	**8,435**
Plastic card transactions	2,601	2,343
Cash transactions	309	513
Settlement transactions	411	421
Other	335	441
Total fee and commission expenses	**3,656**	**3,718**
Net fee and commission income	**4,204**	**4,717**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit cards and servicing fees.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees 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.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Group.	

21. Other operating expenses

GEL'000	2019	2018
Advertising and marketing services	1,380	1,209
Professional services	1,283	1,178
Taxes other than on income	719	434
Lease expenses	636	2,525
Transportation and cash collection	519	439
Security expense	497	469
Representative expenses	436	269
Repair and maintenance	419	385
Communications	399	407
Insurance	323	313
Office supply	249	326
Plastic card expenses	99	79
Business trip expenses	80	77
Other*	2,233	971
Total other operating expenses	**9,272**	**9,081**

* Other includes GEL 1,084 thousand for 2019 (2018: nil) change in value of repossessed assets.

For 2019, Lease expenses includes expenses under low value and short-term lease contracts.

For 2019, professional fees paid to financial auditors comprised GEL 147 thousand (2018: GEL 123 thousand).

The following table presents average number of employees in 2019 and 2018.

	2019	2018
Top management	6	6
Middle management	43	42
Other permanent staff	376	367
Total permanent staff	**425**	**415**
Total temporary staff	**73**	**82**
Total staff	**498**	**497**

22. Credit related commitments

The Group has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities. The Group provides financial guarantees and letters of credit 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 Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

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

GEL'000	2019	2018
Credit related commitments		
Financial guarantees	37,347	45,749
Letters of credit	300	2,462
Total credit related commitments	**37,647**	**48,211**
Less: cash held as security against guarantees and letters of credit	(10,692)	(18,844)
Net exposure to guarantees and letters of credit	**26,955**	**29,367**
Undrawn loan commitments	**24,631**	**14,930**

As at 31 December 2019 the Group allocates undrawn loan commitments under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1). As at 31 December 2019 the respective ECL amount is GEL 281 thousand (Management estimated that ECL is immaterial at 31 December 2018).

As at 31 December 2019 the Group allocates financial guarantees under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2018: Stage 1). As at 31 December 2019 the respective ECL amount is GEL 201 thousand (31 December 2018: GEL 206 thousand).

23. Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2019, the Group's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Group in accordance with regulations and recommendations issued by the NBG.

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 management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Chief Risk Officer is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chief Executive Officer.

The Supervisory Board has responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Supervisory Board and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees, depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises primary as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group 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 further established 3 levels of credit committees which are responsible for approving credit limits for individual borrowers. Review and approval limits for each credit committee differs per loan type. Only retail loans with the maximum amount of GEL 10 thousand and sanctioned retail loans (payroll/credit card/overdraft) with the maximum amount of GEL 20 thousand are issued on branch level. Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit.

In order to monitor credit risk exposures, regular reports are produced by the portfolio analysis manager and reviewed by the credit risk department. Monitoring includes review of the customer's financial performance.

The financial assets of the Group exposed to credit risk can be analysed as follows:

GEL'000 31 December 2019	**Neither past due nor impaired**					
	High grade	**Standard**	**Sub-standard**	**Past due stage 1 and stage 2**	**Impaired loans/Stage 3**	**Total**
Cash and cash equivalents	56,988	-	-	-	-	56,988
Mandatory reserve deposit with the NBG	115,597	-	-	-	-	115,597
Net loans to customers						
Consumer loans	8,118	134,725	41,447	5,800	6,219	196,309
Business loans	8,778	333,542	48,340	8,726	10,893	410,279
Mortgage loans	732	94,868	28	2,586	1,725	99,939
Gold pawn loans	30,966	-	-	-	6,226	37,192
	48,594	**563,135**	**89,815**	**17,112**	**25,063**	**743,719**
Undrawn loan commitments	7,927	10,443	6,261	-	-	24,631
Investment securities	59,009	-	-	-	-	59,009
Other financial assets	4,635	-	-	-	-	4,635
Total	**292,750**	**573,578**	**96,076**	**17,112**	**25,063**	**1,004,579**

GEL'000 31 December 2018	**Neither past due nor impaired**					
	High grade	**Standard**	**Sub-standard**	**Past due stage 1 and stage 2**	**Impaired loans/Stage 3**	**Total**
Cash and cash equivalents	36,837	-	-	-	-	36,837
Mandatory reserve deposit with the NBG	114,432	-	-	-	-	114,432
Net loans to customers						
Consumer loans	2,867	190,986	43,338	5,552	5,827	248,570
Business loans	20,819	216,778	30,069	10,309	5,371	283,346
Mortgage loans	1,715	85,432	417	835	981	89,380
Gold pawn loans	35,313	916	-	96	9,709	46,034
	60,714	**494,112**	**73,824**	**16,792**	**21,888**	**667,330**
Undrawn loan commitments	48	8,050	6,832	-	-	14,930
Investment securities	56,810	-	-	-	-	56,810
Other financial assets	2,733	-	-	296	-	3,029
Total	**271,574**	**502,162**	**80,656**	**17,088**	**21,888**	**893,368**

An analysis of past due loans is provided below. The majority of the past due loans are not considered to be impaired because of high quality and adequacy of collateral.

Neither past due nor impaired financial assets of the Bank are classified as follows:

- High grade: A financial asset with no overdue days secured by deposit or precious metals. The Bank treats mandatory reserve deposit amount with the NBG, together with Ministry of Finance treasury bills and bonds and deposit certificated of the NBG as high grade financial assets.
- Standard grade: A financial asset with no overdue days secured by real estate.
- Substandard grade: A financial asset with no overdue days secured by other collateral or not fully collateralized.

Aging analysis of past due but not impaired loans per class of financial assets:

GEL'000 31 December 2019	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers					
Consumer loans	4,404	974	422	-	5,800
Business loans	6,980	853	893	-	8,726
Mortgage loans	2,374	58	154	-	2,586
Total	**13,758**	**1,885**	**1,469**	**-**	**17,112**

GEL'000 31 December 2018	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers					
Consumer loans	4,788	466	296	-	5,550
Business loans	5,527	4,783	-	-	10,310
Mortgage loans	663	122	50	-	835
Gold pawn loans	97	-	-	-	97
Total	**11,075**	**5,371**	**346**	**-**	**16,792**

The Group is also exposed to credit risk arising from guarantees and letters of credit. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

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

	2019				**2018**			
GEL'000	**Georgia**	**OECD**	**CIS and other foreign countries**	**Total**	**Georgia**	**OECD**	**CIS and other foreign countries**	**Total**
Assets								
Cash and cash equivalents	22,319	1,023	933	24,275	18,402	17,690	745	36,837
Mandatory reserves with the NBG	115,597	-	-	115,597	114,432	-	-	114,432
Loans to customers	742,201	896	622	743,719	651,691	6,498	9,141	667,330
Investment securities	59,009	-	-	59,009	56,810	-	-	56,810
Other financial assets	4,635	-	-	4,635	3,029	-	-	3,029
	943,761	**1,919**	**1,555**	**947,235**	**844,364**	**24,188**	**9,886**	**878,438**

Liquidity risk and funding management

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Management Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The Bank's liquidity policy is comprised of the following:

- projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- maintaining a funding plan commensurate with the Bank's strategic goals;
- maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- maintaining highly liquid and high-quality assets;
- adjusting its product base by time bands against available funding sources;
- daily monitoring of liquidity ratios against regulatory requirements; and
- constant monitoring of asset and liability structures by time-bands.

Treasury function within the Bank is charged with the following responsibilities:

- compliance with the liquidity requirements of the NBG as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- daily reports to management, including reporting to management on the levels of liquid assets in the main currencies (GEL, USD, EUR), cash positions;
- weekly reports to management on the forecasted levels of cash flows in the main currencies (GEL, USD, EUR);
- constantly controlling/monitoring the level of liquid assets;
- monitoring of deposit and other liability concentrations; and
- maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBG. According to the NBG regulation monthly average liquidity ratio should not be less than 30%. ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by ALCO.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables below. These balances are included in amounts due in less than three months in the tables below:

GEL'000 **As at 31 December 2019**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities					
Loans from financial institutions and lease liabilities and deposits and balances from banks	22,715	31,428	68,330	11,581	134,054
Current accounts and deposits from customers	445,132	187,280	89,355	1,114	722,881
Other financial liabilities	6,108	-	-	-	6,108
Subordinated loans	512	3,831	54,907	7,395	66,645
Derivative financial liabilities					
- Inflow	47,413	-	-	-	47,413
- Outflow	(47,102)	-	-	-	(47,102)
Total undiscounted financial liabilities	**474,156**	**222,539**	**212,592**	**20,090**	**929,377**

GEL'000 **As at 31 December 2018**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Loans from financial institutions and deposits and balances from banks	24,487	21,171	36,978	-	82,636
Current accounts and deposits from customers	458,819	153,894	82,546	2,651	697,910
Other financial liabilities	11,693	-	-	-	11,693
Subordinated loans	432	3,318	14,026	40,517	58,293
Derivative financial liabilities					
- Inflow	42,123	-	-	-	42,123
- Outflow	(40,951)	-	-	-	(40,951)
Total undiscounted financial liabilities	**494,259**	**178,383**	**133,550**	**43,168**	**849,360**

The Group considers the maximum liquidity risk of all its financial guarantees and undrawn loan commitments as less than 3 months, as this is the earliest period when the guarantees can be called or the loan commitments can be drawn. However, based on the past experience, the management believes, that the Group is exposed to liquidity risk from its financial commitments and contingencies according to their contractual expiry dates:

	Less than 3 months	**3 to12 months**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2019	29,478	12,526	20,239	35	**62,278**
31 December 2018	19,318	19,348	24,410	65	**63,141**

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk mainly arises from open positions in interest rate financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group manages its market risk by following NBG's prudential ratio requirements on open currency position limits. These limits are monitored on a daily basis and the monitoring process is supervised by the Management Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The portion of the Group's borrowings bears floating interest rate, while the Group's deposits and majority of loan portfolios are at fixed interest rate, NBG pays floating interest rate on minimum reserves that the Group holds with the NBG. The Group also holds a portfolio of loans to customers earning a floating interest income, these financial assets have counter effect to offset possible losses on negative movements of the interest rates of borrowings.

The table below summarizes impact of the 100 basis points interest rate change on the market to the Groups equity (net of tax):

GEL'000	2019	2018
Financial assets	392,651	237,935
Financial liabilities	(73,723)	(36,408)
Net interest sensitivity position	**318,928**	**201,527**
100 Basis points increase of market interest rates	**2,711**	**1,713**
100 Basis points decrease of market interest rates	**(2,711)**	**(1,713)**

Average effective interest rates

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

	2019 Average effective interest rate, %			2018 Average effective interest rate, %		
	GEL	**USD**	**Other currencies**	**GEL**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	9	1	-	7	-	-
Loans to customers	14	9	6	15	10	7
Investment securities	8	-	-	8	-	-
Interest bearing liabilities						
Deposits from banks	-	-	1	-	-	-
Loans from financial institutions and lease liabilities	12	6	3	10	7	-
Current accounts and deposits from customers	8	3	1	6	2	1
Subordinated loans	-	6	6	-	6	-

Currency risk

The Group 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.

The following tables show the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019 and 2018:

GEL'000 31 December 2019	GEL	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	16,456	5,886	1,381	552	24,275
Mandatory reserves with the NBG	-	90,688	24,909	-	115,597
Loans to customers	272,194	316,591	154,934	-	743,719
Investment securities	59,009	-	-	-	59,009
Other financial assets	368	835	3,089	343	4,635
Total assets	**348,027**	**414,000**	**184,313**	**895**	**947,235**
LIABILITIES					
Loans from financial institutions and lease liabilities and deposits and balances from banks	35,145	26,648	56,361	-	118,154
Current accounts and deposits from customers	232,258	375,968	93,654	1,268	703,148
Subordinated loans	-	51,381	1,605	-	52,986
Other financial liabilities	4,143	1,688	246	31	6,108
Total liabilities	**271,546**	**455,685**	**151,866**	**1,299**	**880,396**
Net balance sheet position	**76,481**	**(41,685)**	**32,447**	**(404)**	**66,839**
Effect of Derivatives	**10,723**	**25,968**	**(36,691)**	**-**	**-**
Net Position	**87,204**	**(15,717)**	**(4,244)**	**(404)**	**66,839**

GEL'000 31 December 2018	GEL	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	14,158	21,590	399	690	36,837
Mandatory reserves with the NBG	-	89,784	24,648	-	114,432
Loans to customers	255,606	344,254	67,470	-	667,330
Investment securities	56,810	-	-	-	56,810
Other financial assets	755	601	1,669	4	3,029
Total assets	**327,329**	**456,229**	**94,186**	**694**	**878,438**
LIABILITIES					
Loans from financial institutions and lease liabilities and deposits and balances from banks	54,391	17,618	21	-	72,030
Current accounts and deposits from customers	220,934	362,744	98,350	1,238	683,266
Subordinated loans	-	46,115	-	-	46,115
Other financial liabilities	5,560	5,370	750	13	11,693
Total liabilities	**280,885**	**431,847**	**99,121**	**1,251**	**813,104**
Net balance sheet position	**46,444**	**24,382**	**(4,935)**	**(557)**	**65,334**
Effect of Derivatives	**42,123**	**(42,123)**	**-**	**-**	**-**
Net Position	**88,567**	**(17,741)**	**(4,935)**	**(557)**	**65,334**

A (weakening)/ strengthening of the GEL, as indicated below, against USD at 31 December 2019 and 2018, would have affected 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 Group 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.

GEL'000	**2019**	**2018**
10% weakening of USD against GEL	1,336	1,508
10% strengthening of USD against GEL	(1,336)	(1,508)

The following significant exchange rates applied during the year:

in GEL	**Average rate 2019**	**Average rate 2018**	**Reporting date spot rate 31 December 2019**	**Reporting date spot rate 31 December 2018**
USD 1	2.8192	2.5345	2.8677	2.6766
EUR 1	3.1553	2.9913	3.2095	3.0701

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at 31 December 2019 and 2018, the Group is not significantly exposed to other price risk.

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 Group cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

24. Fair value measurements

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The estimated fair values of all financial instruments as at 31 December 2019 and 31 December 2018 approximate their carrying amounts.

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

25. 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.

	2019			2018		
GEL'000	**Within one year**	**More than one year**	**Total**	**Within one year**	**More than one year**	**Total**
Cash and cash equivalents	56,988	-	56,988	68,917	-	68,917
Mandatory reserve deposit with the NBG	115,597	-	115,597	114,432	-	114,432
Loans to customers	177,912	565,807	743,719	196,841	470,489	667,330
Investment securities	37,582	21,427	59,009	23,256	33,554	56,810
Other financial assets	4,320	315	4,635	2,809	220	3,029
Total	**392,399**	**587,549**	**979,948**	**406,255**	**504,263**	**910,518**
Loans from financial institutions and lease liabilities and deposits and balances from banks	46,279	71,875	118,154	42,421	29,609	72,030
Current accounts and deposits from customers	605,823	97,325	703,148	609,920	73,346	683,266
Subordinated loans	1,511	51,475	52,986	1,415	44,700	46,115
Other financial liabilities	6,108	-	6,108	11,693	-	11,693
Total	**659,721**	**220,675**	**880,396**	**665,449**	**147,655**	**813,104**
Net exposure	**(267,322)**	**366,874**	**99,552**	**(259,194)**	**356,608**	**97,414**

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

As at 31 December 2019, total amounts due to customers amounted to GEL 703,148 thousand (2018: GEL 683,266 thousand). The Group conducts analysis of the stability of the customer accounts within amounts due to customers for the period of the preceding two years on a monthly basis. Current accounts end-of-month balances have not fallen on average below GEL 531,446 thousand (2018: GEL 391,844 thousand) for the preceding 24 months. Significant part of total current accounts represents current accounts from legal entities, which historically are of long-term nature. As such, it is reasonable to treat these funds for estimation of liquidity position of the Group as with maturity of more than one year.

26. Related party disclosures

(a) Control relationships

The Bank does not have an ultimate controlling party or ultimate or immediate parent company. The shareholding structure of the Bank is disclosed in note 1 of these consolidated financial statements.

(b) Transactions with key management

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 2018 is as follows:

GEL'000	**2019**	**2018**
Salaries and other benefits	**3,146**	**2,454**

As at 31 December 2019 the Group has issued loans of GEL 60 thousand (2018: GEL 72 thousand) to its key management. The loans are mainly long-term and bear average interest rate of 16%. In 2019 interest income accrued on the loans to the key management is GEL 8.5 thousand (2018: GEL 7 thousand).

As at 31 December 2019 the key management placed deposits of GEL 2,050 thousand with the Bank (2018: GEL 742 thousand). The deposits bear average interest rate of 5% and mature within 1 year from the reporting date. In 2019 interest expense accrued on the term deposits from the key management is GEL 8.3 thousand (2018: GEL 11 thousand).

(c) Transactions with entities under common control

GEL'000	Transaction value 2019	Outstanding balance 2019	Transaction value 2018	Outstanding balance 2018
Subordinated loan from an entity under common control	-	38,726	14,137	36,141
Current accounts and term deposits of entities under common control	(1,694)	4,856	(6,000)	6,601

Terms and conditions of the subordinated loan is disclosed in note 13. In 2019 interest expense of GEL 1,806 thousand was accrued on subordinated loan from the related party (2018: GEL 1,257 thousand). The current accounts and term deposits mainly do not bear interest rate and are on demand. Interest expense of GEL 7 thousand was accrued on terms deposits from related parties (2017: GEL 50 thousand).

27. Capital adequacy

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

The primary objectives of the Bank's capital management are (i) to ensure that the Bank complies with externally imposed capital requirements set by the NBG, (ii) to safeguard the Bank's ability to continue as a going concern and 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 adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group complied with all its externally imposed capital requirements at 31December 2019 and as at 31December2018.

The NBG capital adequacy ratio*

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 2019 Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Total Capital ratios is set at 4.50%, 6.00% and 8.00%, respectively. Capital Conservation and Countercyclical buffers were set at 2.50% and 0%, respectively.

As at 31 December 2019, the Bank had to maintain the currency induced credit risk (CICR) buffer, Risk buffer for credit portfolio concentration and net GRAPE buffer, the sum of all these indicators is 6.74% (2018: 6.95%). All the rest Pillar II buffers were to preserve at nil percent (2018: nil). Under total Basel III requirements the Bank was required to maintain a minimum regulatory capital ratio, Common Equity Tier 1 capital adequacy ratio and Tier 1 capital adequacy ratio of 9.26%, 11.52% and 17.24%, respectively (2018: 9.14%, 11.37% and 17.45%, respectively). The Bank was in compliance with these capital adequacy ratios as at 31 December 2019 and as at 31 December 2018.

The calculation of the capital adequacy ratios in accordance with the NBG accounting rules and capital adequacy Basel III framework for 31 December 2019 and 31 December 2018:

GEL’000	**2019***	**2018***
Core capital	116,132	104,602
Supplementary capital	56,857	51,811
Total regulatory capital	**172,989**	**156,413**
Risk weighted assets	**898,693**	**872,383**
Minimum total capital adequacy requirements	**17.24%**	**17.45%**
Total capital adequacy ratio	19.25%	17.93%
Minimum Tier 1 capital adequacy requirements	**11.52%**	**11.37%**
Tier 1 capital adequacy ratio	12.92%	11.99%

*These amounts are unaudited.

28. Contingencies

Litigation

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

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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. Events after the reporting date

Subsequent events – the COVID-19 outbreak

(i) General overview

On 11 March 2020, the World Health Organisation (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.). The restrictions imposed by Government of Georgia do not apply to any of the Bank’s operations. The Bank continues work under the business continuity plan with personnel mostly working remotely from home as much as possible.

Government of Georgia (“GOG”) removed state of emergency since 23rd of May 2020; however, most of the restrictions including closure of public transport is still effective. GOG took steps to ease the restrictions and allowed some businesses to reopen on the assumption that all epidemiologic requirements are strictly followed.

(ii) Changes in regulatory requirements

As response to the existing crisis, the National Bank of Georgia ("NBG") took several actions aiming at alleviating the negative financial and economic challenges created by the global COVID-19 pandemic in Georgia. The following NBG actions may potentially have effect on the Bank's operations:

- in order to stabilize sudden increase in foreign exchange rates (GEL/USD peak rate of 3.4842 was recorded on 27 March 2020), NBG sold USD 100 million on local market during March 2020;
- coordinated Georgian banks' initiative to provide voluntary grace period of three months to most of commercial banks' retail and small business borrowers within the country. In parallel to slightly amplified drawdowns of deposits for household cash needs, this initiative has further stressed the GEL liquidity in the financial sector. To address it, NBG started to offer FX swaps to commercial banks and microfinance organizations, up to USD 200 million for each sector;
- softened regulatory requirements for commercial banks, including softening certain requirements for capital adequacy and liquidity ratios. This will allow banks to use existing buffers to support customers in the current financially stressed circumstances, to continue normal business activities to the extent possible. Liquidity coverage ratio (LCR) requirements (for local and foreign currency, as well as total requirement) may as well be revisited and reduced, if necessary;
- imposed general provisions for possible credit losses for each bank individually;
- is not going to impose any monetary sanctions in case of breach of economic normative and limits driven by external factors (e.g. reserves, exchange rate deprecation).

(iii) Effect of COVID 19 on the Bank

The Bank has considered effect of grace period provided to clients in its liquidity analysis. In addition, the Bank revised expected credit loss model for updated environment thus resulting in increase of expected credit losses.

Management of the Bank also performed stress tests for several possible scenarios to estimate possible downside effects of the pandemic on the Bank's operations liquidity and capital adequacy. The Bank has assessed its liquidity and capital adequacy position for the 12 months from the date these consolidated financial statements are authorized for issues. Even in the worst case scenario of stress tests the Bank maintains sufficient liquidity and capital adequacy to support continued operations for the foreseeable future.

Taking into account the above-mentioned measures and the Bank's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Bank's financial position and operating results. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Bank in the medium and longer term. The Bank also considers negative development scenarios and is ready to adapt its operational plans accordingly. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.