JSC Terabank

Financial statements

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

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Independent auditor's report

To the Shareholders and Board of Directors of JSC Terabank

Opinion

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

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

Basis for opinion

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

Other information included in the Bank's 2022 Management Report

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

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

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

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Responsibilities of management and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Ruslan Khoroshvili

On behalf of EY LLC

31 May 2023

Tbilisi, Georgia

Statement of financial position

As at 31 December 2022

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	2022	2021
Assets			
Cash and cash equivalents	5	124,579	80,992
Mandatory reserve deposit with the National Bank of Georgia		118,569	146,155
Loans to customers	7	1,055,637	950,206
Investment securities	6	157,413	127,005
Repossessed property	7	20,338	19,828
Premises and equipment	8	24,059	24,916
Other intangible assets		4,009	3,031
Goodwill	9	20,374	20,374
Prepaid income tax		1,489	–
Other assets	10	4,902	8,162
Total assets		**1,531,369**	**1,380,669**
Liabilities			
Loans from financial institutions and lease liabilities	12	260,554	219,608
Deposits and balances from credit institutions	15	53	11,278
Current accounts and deposits from customers	16	959,129	890,497
Current income tax liabilities		–	223
Deferred tax liability	11	2,751	1,515
Other liabilities	17	11,184	7,437
Subordinated loans	13	75,808	58,057
Total liabilities		**1,309,479**	**1,188,615**
Equity			
Share capital	18	121,372	121,372
Retained earnings		100,518	70,682
Total equity		**221,890**	**192,054**
Total liabilities and equity		**1,531,369**	**1,380,669**

These financial statements were approved by the Management Board on 31 May 2023 and were signed on its behalf by:

Thea Lortkipanidze
General Director

Sophie Jugeli
Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 48.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	*2022*	*2021*
Interest income calculated using the effective interest method	19	136,560	110,880
Interest expense	19	(74,352)	(57,631)
Net interest income		**62,208**	**53,249**
Credit loss recovery/(expense)	4	5,582	2,187
Fee and commission income	20	8,119	7,069
Fee and commission expense	20	(3,350)	(3,323)
Net Gain/(Loss) from foreign exchange transactions	21	(361)	590
Other income		226	79
Operating income		**72,424**	**59,851**
Personnel expenses		(21,823)	(15,221)
Depreciation and amortization		(5,426)	(5,358)
Other provisions reversal/(charge)		(20)	249
Loss from sale and revaluation of repossessed assets		(1,467)	(2)
Other operating expenses	22	(10,622)	(7,846)
Profit before income tax		**33,066**	**31,673**
Income tax expense	11	(3,230)	(2,815)
Profit and total comprehensive income for the year		**29,836**	**28,858**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 48.

Statement of changes in equity

For the year ended 31 December 2022

(In thousands of Georgian Lari, unless otherwise stated)

	Share capital	*Retained earnings*	*Total equity*
Balance at 1 January 2021	**121,372**	**41,824**	**163,196**
Profit and total comprehensive income for the year	–	28,858	**28,858**
Balance at 31 December 2021	**121,372**	**70,682**	**192,054**
Profit and total comprehensive income for the year	–	29,836	**29,836**
Balance at 31 December 2022	**121,372**	**100,518**	**221,890**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 48.

Statement of cash flows

For the year ended 31 December 2022

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Interest received		138,171	109,075
Interest paid		(73,445)	(57,573)
Fees and commissions received		8,119	7,069
Fees and commissions paid		(3,296)	(3,259)
Net (loss)/gain received from trading in foreign currencies	21	10,870	8,757
Other operating income received		226	79
Personnel expenses paid		(23,639)	(15,998)
Other operating expenses paid		(11,763)	(6,980)
Cash received from sale of repossessed assets		4,269	2,737
Income tax paid		(3,705)	–
Cash flows from operating activities before changes in operating assets and liabilities		**45,807**	**43,907**
Changes in:			
Mandatory reserve deposits with the National Bank of Georgia		11,701	(6,867)
Loans to customers		(184,120)	(103,159)
Other assets and repossessed property		6,752	–
Deposits and balances from banks		(11,483)	2,008
Current accounts and deposits from customers		141,199	69,072
Other liabilities		4,534	–
Net cash used in operating activities		**14,390**	**4,961**
Cash flows from investing activities			
Acquisition of investment securities		(232,758)	(139,951)
Proceeds from redemption of investment securities		203,126	100,988
Acquisition of premises and equipment		(3,474)	(1,982)
Proceeds from disposal of premises and equipment		599	324
Acquisition of intangible assets		(2,673)	(2,098)
Net cash used in investing activities		**(35,179)**	**(42,719)**
Cash flows from financing activities			
Repayment of lease liabilities		(1,978)	(2,132)
Receipts of the loans from the financial institutions		318,241	355,799
Repayment of the loans from the financial institutions		(267,379)	(315,286)
Repayment of the subordinated loans		(12,405)	(2,302)
Proceeds from subordinated loans		38,961	3,502
Net cash from financing activities	14	**75,440**	**39,581**
Effect of exchange rates changes on cash and cash equivalents		(11,063)	(2,789)
Net decrease in cash and cash equivalents		**43,587**	**(966)**
Cash and cash equivalents, beginning	5	80,992	81,958
Cash and cash equivalents, ending	5	**124,579**	**80,992**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 48.

(In thousands of Georgian Lari, unless otherwise stated)

1. Reporting entity

Organisation and operations

JSC Terabank (the “Bank”) is a Georgian commercial bank holding a general banking license form the National Bank of Georgia (the “NBG”) issued on 25 January 2008.

The Bank’s tax 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 registered legal address is 3 K. Tsamebuli Avenue, Tbilisi, 0103, Georgia. The Bank operates through 34 branches, service centers and service desks (2021: 29), which are located in all major cities of Georgia.

As at 31 December 2022 and 2021, the Bank’s shareholding structure is as follows:

Owners	***2022 Ownership interest, %***	***2021 Ownership interest, %***
Sheikh Nahayan Mubarak Al Nahyan	65%	65%
Sheikh Mohamed Bin Butti Al Hamed	15%	15%
Sheikh Mansour bin Zayed Bin Sultan Al Nahyan	15%	15%
Investment Trading Group LLC	5%	5%
	100%	**100%**

Related party transactions are described in detail in Note 27.

These financial statements have been approved by the Supervisory Board of the Bank.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank 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 financial statements.

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

(d) Use of estimates and judgments

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

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

(in thousands of Georgian Lari, unless otherwise stated)

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Please refer to Note 25.

Impairment losses on financial assets

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

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth rate, and the effect on PDs.
- Selection of forward−looking macroeconomic scenarios to derive the economic inputs into the ECL models.

As at 31 December 2022, the Bank introduced certain changes in its process of estimation of expected credit losses:

1. Transfer loan from Stage 2 to Stage 1 (including restructured loans) if the following conditions were met:
   - 6 monthly payments have been made since stage 2 was allocated to the loan;
   - In the last 6 months, consecutive payments were made with payments in arrears days not exceeding 30 days for each arrears period (12 months payments are necessary for loans with seasonal payments);
   - There was no grace period for the loan in the last 6 months;
   - If the loan is restructured, at least 6 months must have passed since the restructuring date;
2. Transfer loan from Stage 3 to Stage 2 (including restructured loans also) if the following conditions were met:
   - 6 monthly payments have been made since stage 3 was allocated to the loan;
   - In the last 6 months, consecutive payments were made with payments in arrears days not exceeding 30 days for each arrears period (12 months payments are necessary for loans with seasonal payments);
   - There was no grace period for the loan in the last 6 months;
   - If the loan is restructured, at least 6 months must have passed since the restructuring date;

The effect of the change in methodology in 2022 profit or loss was GEL 4,258.

Impairment of goodwill

The Bank 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 in Note 9. 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 thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) 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.

(b) Interest

Effective interest rate

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

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

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

The calculation of the effective interest rate includes transaction costs and fees 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 (d) (iv).

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(b) Interest (continued)

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.

(c) Fees and commissions

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 (c)).

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

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

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

(d) Financial assets and financial liabilities

i. Classification

On initial recognition, a financial asset is classified as measured at: amortized 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 recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized 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 derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

All other financial assets are classified as measured at FVTPL.

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

Business model assessment

The Bank 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 Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. Whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading 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 Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets – e.g. non−recourse asset arrangements;
- 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 Bank changes its business model for managing financial assets.

Financial liabilities

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

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

ii. Derecognition

Financial assets

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

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

Financial liabilities

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

iii. Modification of financial assets and financial liabilities

Financial assets

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

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

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 Bank due to changes in the NBG key rate, if the loan agreement entitles the Bank to do so. The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired.

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

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

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

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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

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

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

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

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

- Financial assets that are debt instruments;
- Loan commitments and financial guarantee contracts issued.

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

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

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

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).

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

Measurement of ECLs

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

- Undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Bank 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(d)(ii)) 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;
- Due to contamination principle all exposures of a specific borrower are allocated to the lowest stage available for such a borrower as at the reporting date;

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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets.

Write−offs

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

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

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(e) 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 Bank in the management of short−term commitments. Cash and cash equivalents are carried at amortised cost in the 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.

(f) Loans to customers

'Loans to customers' caption in the 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.

(g) 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.

(h) Repossessed property

Repossessed property represents non−financial assets acquired by the Bank 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 Bank'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.

(i) Provisions

A provision is recognised in the statement of financial position when the Bank 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.

(j) 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.

(k) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank 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(d)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(l) Financial guarantees and loan commitments

For other loan commitments:

- The Bank recognises a loss allowance (see Note 3(d)(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 Bank 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 statement of financial position. Goodwill is carried at cost less accumulated impairment losses, if any.

The Bank 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 Banks 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 Bank 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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

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

(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

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (applicable to undistributed profits) and tax laws, that have been enacted or substantively enacted by the end of the reporting period. Georgia also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

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 Bank 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 Bank. 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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(r) Leases

The Bank recognises 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 Bank'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 Bank 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 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 issued but not yet effective

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

IFRS 17 Insurance Contracts

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Bank. Amendments to IAS 1: Classification of Liabilities as Current or Non−current In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non−current. The amendments clarify:

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

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Significant accounting policies (continued)

(s) New standards and interpretations issued but not yet effective (continued)

Definition of Accounting Estimates – Amendments to IAS 8

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

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

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

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

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

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

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

4. Financial risk review

This note presents information about the Bank’s exposure to financial risks. For information on the Bank’s financial risk management framework, see Note 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 Bank 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 Bank’s historical experience, expert credit assessment and forward−looking information.

The Bank 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;
- 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);
- Contamination principle all exposures of a specific borrower are allocated to the highest credit risk stage available for such a borrower as at the reporting date.

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Credit risk – amounts arising from ECL (continued)

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 and are calculated based on loan numbers.

Determining whether credit risk has increased significantly

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than, when an asset is more than 30 days past due. 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.

Contamination effect is in considered determination of both SICR and default, by which all exposures of a specific borrower are allocated to the lowest stage available for such a borrower as at the reporting date; Default status is assessed regularly (monthly). In general loan remains as default if during its lifetime it was under default at least once, but there might be rare cases, which Bank assess separately.

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 Bank'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. Cure period was introduced for transition of restructured exposures after six months of more than minor consecutive payments in accordance with the revised payment schedule from lifetime to 12−month ECL category.

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.

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Credit risk – amounts arising from ECL (continued)

The Bank 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) and where the deposit currency is different from the loan currency 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 average 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, credit cards and credit lines separately for each lifetime period. Historical behavior is observed to calculate the average default periods from the disbursement of the loan. Based on historical data analysis, it is showed that loss identification period is 6 months. 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, credit cards and credit lines 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.

Loans to customers at amortised cost – Business loans	***2022***				***2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	**2,557**	**12,956**	**13,389**	**28,902**	**3,364**	**19,539**	**8,472**	**31,375**
Transfer to Stage 1	2,641	(2,641)	–	**–**	2,649	(2,649)	**–**	**–**
Transfer to Stage 2	(83)	1,327	(1,244)	**–**	(168)	168	**–**	**–**
Transfer to Stage 3	(41)	(1,836)	1,877	**–**	(44)	(2,794)	2,838	**–**
Unwinding			464	**464**	–	–	258	**258**
Net remeasurement of loss allowance	(3,853)	(2,751)	(383)	**(6,987)**	(4,741)	(2,943)	3,412	**(4,272)**
New financial assets originated or purchased	3,898	–	–	**3,898**	3,326	–	–	**3,326**
Transfer to Stage 2	(1,036)	1,036	–	**–**	(1,635)	1,635	–	**–**
Transfer to Stage 3	(1,156)	–	1,156	**–**	(194)	–	194	**–**
Write−offs	–	–	(976)	**(976)**	–	–	(1,785)	**(1,785)**
Balance at 31 December	**2,927**	**8,091**	**14,283**	**25,301**	**2,557**	**12,956**	**13,389**	**28,902**

Loans to customers at amortized cost – Consumer loans	***2022***				***2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	**473**	**559**	**2,907**	**3,939**	**650**	**1,255**	**2,226**	**4,131**
Transfer to Stage 1	225	(225)	–	**–**	72	(72)	–	**–**
Transfer to Stage 2	(4)	423	(419)	**–**	(12)	12	–	**–**
Transfer to Stage 3	(7)	(37)	44	**–**	(6)	(141)	147	**–**
Unwinding	–	–	41	**41**	–	–	11	**11**
Net remeasurement of loss allowance	(506)	(532)	705	**(333)**	(449)	(576)	1,311	**286**
New financial assets originated or purchased	908	–	–	**908**	749	–	–	**749**
Transfer to Stage 2	(90)	90	–	**–**	(81)	81	–	**–**
Transfer to Stage 3	(544)	–	544	**–**	(450)	–	450	**–**
Write−offs	–	–	(1,341)	**(1,341)**	–	–	(1,238)	**(1,238)**
Balance at 31 December	**455**	**278**	**2,481**	**3,214**	**473**	**559**	**2,907**	**3,939**

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Expected credit loss allowance (continued)

Loans to customers at amortized cost – Mortgage loans	*2022*				*2021*			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	171	493	1,008	**1,672**	**264**	**1,022**	**890**	**2,176**
Transfer to Stage 1	231	(231)	–	**–**	106	(106)	–	**–**
Transfer to Stage 2	(1)	310	(309)	**–**	(2)	2	–	**–**
Transfer to Stage 3	(1)	(79)	80	**–**	(1)	(37)	38	**–**
Unwinding			11	**11**	–	–	(34)	**(34)**
Net remeasurement of loss allowance	(291)	(342)	370	**(263)**	(241)	(438)	504	**(175)**
New financial assets originated or purchased	439	–	–	**439**	184	–	–	**184**
Transfer to Stage 2	–	–	–	**–**	(50)	50	–	**–**
Transfer to Stage 3	(392)	–	392	**–**	(89)	–	89	**–**
Write−offs	–	–	(241)	**(241)**	–	–	(479)	**(479)**
Balance at 31 December	156	151	1,311	1,618	**171**	**493**	**1,008**	**1,672**

Loans to customers at amortized cost – Pawn loans	*2022*				*2021*			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	–	–	–	–	**–**	**–**	**–**	**–**
Transfer to Stage 1	–	–	–	–	–	–	**–**	**–**
Transfer to Stage 2	–	–	–	–	–	–	–	**–**
Transfer to Stage 3	–	–	–	–	–	–	–	**–**
Net remeasurement of loss allowance	–	–	–	–	–	–	156	**156**
Repayments through repossessing	–	–	–	–	–	–	–	**–**
Write−offs	–	–	–	–	–	–	(156)	**(156)**
Balance at 31 December	–	–	–	–	**–**	**–**	**–**	**–**

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.

	2022				
	Loans to customers at amortized cost – Business loans	***Loans to customers at amortized cost – Consumer loans***	***Loans to customers at amortized cost – Mortgage loans***	***Loans to customers at amortized cost – Pawn loans***	***Total***
Net remeasurement of loss allowance	(6,987)	(333)	(263)	–	(7,583)
New financial assets originated or purchased	3,899	908	438	–	5,245
Subtotal	**(3,088)**	**575**	**175**	**–**	**(2,338)**
Recoveries of amounts previously written off	(354)	(999)	(304)	(1,587)	(3,244)
Total	**(3,442)**	**(424)**	**(129)**	**(1,587)**	**(5,582)**

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Expected credit loss allowance (continued)

	2021				
	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	(4,272)	286	(175)	156	**(4,005)**
New financial assets originated or purchased	3,326	749	184	−	**4,259**
Subtotal	**(946)**	**1,035**	**9**	**156**	**254**
Recoveries of amounts previously written off	(422)	(1,628)	(391)	−	**(2,441)**
Total	**(1,368)**	**(593)**	**(382)**	**156**	**(2,187)**

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

Loans to customers at amortised cost – Business loans	***2022***				***2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	**Total**
Balance at 1 January	**622,127**	**106,023**	**32,499**	**760,649**	***510,337***	***153,866***	***26,686***	**690,889**
Transfer to Stage 1	31,949	(31,949)	−	**−**	21,345	(21,345)	−	**−**
Transfer to Stage 2	(21,004)	23,595	(2,591)	**−**	(21,960)	21,960	−	**−**
Transfer to Stage 3	(7,020)	(10,171)	17,191	**−**	(4,672)	(16,021)	20,693	**−**
New financial assets originated or purchased	391,858	−	−	**391,858**	345,437	−	−	**345,437**
Transfer to Stage 2	(9,006)	9,006	−	**−**	(15,628)	15,628	−	**−**
Transfer to Stage 3	(4,157)	−	4,157	**−**	(603)	−	603	**−**
Repayments and other movements (including foreign currency revaluations)	(260,516)	(34,204)	(15,180)	**(309,900)**	(212,129)	(48,065)	(14,391)	**(274,585)**
Unwinding			1,157	**1,157**	−	−	693	**693**
Write−offs	−	−	(978)	**(978)**	−	−	(1,785)	**(1,785)**
Balance at 31 December	**744,231**	**62,300**	**36,255**	**842,786**	***622,127***	***106,023***	***32,499***	**760,649**

Loans to customers at amortised cost – Consumer loans	***2022***				***2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Balance at 1 January	**91,832**	**4,629**	**4,999**	**101,460**	**87,538**	**9,382**	**5,134**	**102,054**
Transfer to Stage 1	2,055	(2,055)	−	**−**	680	(680)	−	**−**
Transfer to Stage 2	(683)	1,245	(562)	**−**	(1,387)	1,387	−	**−**
Transfer to Stage 3	(1,191)	(318)	1,509	**−**	(634)	(1,071)	1,705	**−**
New financial assets originated or purchased	69,602	−	−	**69,602**	42,695	−	−	**42,695**
Transfer to Stage 2	(678)	678	−	**−**	(680)	680	−	**−**
Transfer to Stage 3	(933)	−	933	**−**	(683)	−	683	**−**
Repayments and other movements (including foreign currency revaluations)	(49,563)	(1,898)	(1,300)	**(52,761)**	(35,167)	(5,056)	(1,431)	**(41,654)**
Unwinding	−	−	188	**188**	−	−	147	**147**
Transfer due to resegmentation					(530)	(13)	(1)	**(544)**
Write−offs	−	−	(1,341)	**(1,341)**	−	−	(1,238)	**(1,238)**
Balance at 31 December	**110,441**	**2,281**	**4,426**	**117,148**	**91,832**	**4,629**	**4,999**	**101,460**

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Expected credit loss allowance (continued)

Loans to customers at amortised cost – Mortgage loans	*2022*				*2021*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January	**92,993**	**6,829**	**2,370**	**102,192**	**100,105**	**11,508**	**1,885**	**113,498**
Transfer to Stage 1	3,191	(3,191)	–	**–**	1,623	(1,623)	–	**–**
Transfer to Stage 2	(457)	979	(522)	**–**	(1,009)	1,009	–	**–**
Transfer to Stage 3	(329)	(1,362)	1,691	**–**	(447)	(1,001)	1,448	**–**
New financial assets originated or purchased	27,808	–	–	**27,808**	22,768	–	–	**22,768**
Transfer to Stage 2	–	–	–	**–**	(623)	623	–	**–**
Transfer to Stage 3	(1,047)	–	1,047	**–**	(247)	–	247	**–**
Repayments and other movements (including foreign currency revaluations)	(30,244)	(1,417)	(712)	**(32,373)**	(29,705)	(3,702)	(760)	**(34,167)**
Unwinding	–	–	41	**41**	–	–	30	**30**
Transfer due to resegmentation	–	–	–	**–**	528	15	(1)	**542**
Write−offs	–	–	(241)	**(241)**	–	–	(479)	**(479)**
Balance at 31 December	**91,915**	**1,838**	**3,674**	**97,427**	**92,993**	**6,829**	**2,370**	**102,192**

Loans to customers at amortised cost – Pawn loans	*2022*				*2021*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance at 1 January	**20,418**	**–**	**–**	**20,418**	**30,053**	**–**	**–**	**30,053**
Transfer to Stage 1	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**	–	–	–	**–**
New financial assets originated or purchased	5,442	–	–	**5,442**	4,743	–	–	**4,743**
Repayments and other movements (including foreign currency revaluations)	2,549	–	–	**2,549**	(14,378)	–	156	**(14,222)**
Write−offs	–	–	–	**–**	–	–	(156)	**(156)**
Balance at 31 December	**28,409**	**–**	**–**	**28,409**	**20,418**	**–**	**–**	**20,418**

Credit quality analysis

The following table provides information on the credit quality of loans to customers as at 31 December 2022 and 31 December 2021:

Loans to customers at amortised cost – Business loans	*31 December 2022*				*31 December 2021*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Not overdue	724,917	52,138	14,495	**791,550**	606,003	92,659	13,331	**711,993**
Overdue less than 30 days	19,312	6,381	562	**26,255**	16,124	8,831	2,101	**27,056**
Overdue 30−90 days	–	3,782	2,140	**5,922**	–	4,533	4,566	**9,099**
Overdue more than 90 days	–	–	19,059	**19,059**	–	–	12,501	**12,501**
Total business loans, gross	744,229	62,301	36,256	**842,786**	622,127	106,023	32,499	**760,649**
Loss allowance	**(2,927)**	**(8,091)**	**(14,283)**	**(25,301)**	**(2,557)**	**(12,956)**	**(13,389)**	**(28,902)**
Carrying amount	**741,302**	**54,210**	**21,973**	**817,485**	**619,570**	**93,067**	**19,110**	**731,747**

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Credit quality analysis (continued)

Loans to customers at amortised cost – Consumer loans	***31 December 2022***				***31 December 2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Not overdue	108,878	1,175	1,367	**111,420**	86,378	3,600	2,628	**92,606**
Overdue less than 30 days	1,564	411	594	**2,569**	5,454	457	410	**6,321**
Overdue 30−90 days	−	695	320	**1,015**	−	572	495	**1,067**
Overdue more than 90 days	−	−	2,144	**2,144**	−	−	1,466	**1,466**
Total consumer loans, gross	**110,442**	**2,281**	**4,425**	**117,148**	**91,832**	**4,629**	**4,999**	**101,460**
Loss allowance	(455)	(277)	(2,481)	**(3,213)**	(473)	(559)	(2,907)	**(3,939)**
Carrying amount	**109,987**	**2,004**	**1,944**	**113,935**	**91,359**	**4,070**	**2,092**	**97,521**

Loans to customers at amortised cost – Mortgage loans	***31 December 2022***				***31 December 2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Not overdue	90,396	1,404	2,232	**94,032**	92,349	5,985	1,992	**100,326**
Overdue less than 30 days	1,519	236	297	**2,052**	644	530	−	**1,174**
Overdue 30−90 days	−	198	−	**198**	−	314	48	**362**
Overdue more than 90 days	−	−	1,145	**1,145**	−	−	330	**330**
Total mortgage loans, gross	**91,915**	**1,838**	**3,674**	**97,427**	**92,993**	**6,829**	**2,370**	**102,192**
Loss allowance	(157)	(152)	(1,310)	**(1,619)**	(171)	(493)	(1,008)	**(1,672)**
Carrying amount	**91,758**	**1,686**	**2,364**	**95,808**	**92,822**	**6,336**	**1,362**	**100,520**

Loans to customers at amortised cost – Pawn loans	***31 December 2022***				***31 December 2021***			
	Stage 1	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Not overdue	28,409	−	−	**28,409**	20,340	−	−	**20,340**
Overdue less than 30 days	−	−	−	**−**	78	−	−	**78**
Overdue 30−90 days	−	−	−	**−**	−	−	−	**−**
Overdue more than 90 days	−	−	−	**−**	−	−	−	**−**
Total pawn loans, gross	**28,409**	**−**	**−**	**28,409**	**20,418**	**−**	**−**	**20,418**
Loss allowance	−	−	−	**−**	−	−	−	**−**
Carrying amount	**28,409**	**−**	**−**	**28,409**	**20,418**	**−**	**−**	**20,418**

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

The table below includes Stage 2 and 3 assets that were modified during the period. There was no material modification loss suffered by the Bank in their respect.

	2022	***2021***
Loans modified during the period		
Restructured loans during the period	10,568	27,239
Loans modified since initial recognition		
Gross carrying amount of restructured loans as at 31 December for which stage has been changed (stage 1) during the last 12 months period	425	3,917
Restructured Stage 1 Loans Exposure (methodology change)	5,385	−

(in thousands of Georgian Lari, unless otherwise stated)

4. Financial risk review (continued)

Credit quality analysis (continued)

In absence of collateral or other credit enhancements, ECL in respect of individually assessed Stage 3 loans to customers as of 31 December 2022 would have been higher by:

	2022	***2021***
Business loans	25,237	20,276
Consumer loans	2,305	2,214
Mortgage loans	1,128	891
Total ECL	**28,670**	**23,381**

The bank does not perform collateral evaluation for the collectively assessed loans.

5. Cash and cash equivalents

	2022	***2021***
Cash on hand	**38,959**	**34,284**
Accounts with the NBG	**28,814**	**23,129**
Current accounts with other credit institutions		
rated A− to A+	939	16,335
rated BBB to BBB+	1,847	2,605
rated from BB− to BB+	52,949	3,530
not rated	1,071	1,109
Total current accounts with other credit institutions	**56,806**	**23,579**
Total cash and cash equivalents	**124,579**	**80,992**

No cash and cash equivalents are past due or impaired. As at 31 December 2022 the Bank had one bank account (2021: no bank account), which balance exceeds 10% of equity. As at 31 December 2022 the Bank allocates cash equivalents as Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). Management estimates that ECL is immaterial at reporting dates.

6. Investment securities

	2022	***2021***
Investment securities measured at amortized cost		
Corporate securities	74,406	39,303
Government securities of the Ministry of Finance of Georgia	68,235	87,737
Certificates of deposit of the National Bank of Georgia	14,819	−
Total gross carrying value	**157,460**	**127,040**
Expected credit losses	(47)	(35)
Total net investment securities	**157,413**	**127,005**

The Bank holds a portfolio of debt securities issued by the Government of Georgia, the National Bank of Georgia and corporate issuers.

Investment securities with carrying value of GEL 69,719 thousand (2021: 74,071) are used as collateral for loans from the National Bank of Georgia (Note 12).

(in thousands of Georgian Lari, unless otherwise stated)

6. Investment securities (continued)

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

	31 December 2022		31 December 2021	
	Nominal interest rate, %	Maturity	Nominal interest rate, %	Maturity
Investment securities	7−15	2023−2028	7−10	2022−2028

No investment securities are past due or impaired. As at 31 December 2022 the Bank allocates investment securities as Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (2021: Stage 1).

Movements in the credit loss allowance of investment securities measured at amortized cost for the year ended 31 December 2022 was GEL 12 thousand (2021: 34 thousand).

7. Loans to customers

	2022	2021
Business Loans	842,786	760,649
Consumer loans	117,148	101,460
Mortgage loans	97,427	102,192
Gold pawn loans	28,409	20,418
Gross loans to customers	**1,085,770**	**984,719**
Less: allowance for impairment (Note 4)	(30,133)	(34,513)
Net loans to customers	**1,055,637**	**950,206**

Information about expected credit losses and credit quality of loans is disclosed in Note 4.

(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:

	2022	2021
Trading and service	389,853	346,709
Construction	251,627	239,533
Individuals	214,574	203,652
Agriculture and food processing	131,152	89,479
Gold pawn	28,409	20,418
Health care	24,754	22,883
Financial institutions	17,139	17,167
Energy	15,271	20,386
Other	12,991	24,492
Gross loans to customers	1,085,770	984,719

Loans of GEL 37,691 thousand (2021: GEL 43,980 thousand) are pledged under the loans received from the NBG. See Note 12.

(b) Significant credit exposures

As at 31 December 2022 none of the balances of the Bank’s borrowers exceeds 10% of equity (2021: none).

As at 31 December 2022, the Bank had a concentration of loans represented by GEL 100,443 thousand due from the ten largest borrowers (2021: GEL 116,114 thousand). An allowance of GEL 246 thousand (2021: GEL 132 thousand) was recognised against these loans.

(c) 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 Bank 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 Bank has implemented the guidelines regarding the acceptability of types of collateral and valuation parameters.

(in thousands of Georgian Lari, unless otherwise stated)

7. Loans to customers(continued)

(c) Analysis of collateral and other credit enhancements

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:

	Net exposures					
At 31 December 2022	***Real estate***	***Cash collateral***	***Other***	***No collateral***	***Precious metal***	***Total***
Business	735,109	15,836	39,731	26,416	393	817,485
Consumer	36,689	6,190	25,836	45,220	–	113,935
Mortgage	95,133	675	–	–	–	95,808
Gold pawn	–	–	19,312	–	9,097	28,409
Total	**866,931**	**22,701**	**84,879**	**71,636**	**9,490**	**1,055,637**

	Net exposures					
At 31 December 2021	***Real estate***	***Cash collateral***	***Other***	***No collateral***	***Precious metals***	***Total***
Business	681,760	13,607	29,177	7,078	125	**731,747**
Mortgage	99,794	543	120	61	–	**100,518**
Consumer	34,977	16,484	5,899	40,163	–	**97,523**
Gold pawn	–	–	12,803	–	7,615	**20,418**
Total	**816,531**	**30,634**	**47,999**	**47,302**	**7,740**	**950,206**

The tables above exclude 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.

(d) Repossessed collateral

Repossessed property mainly represents real estate and gold assets acquired by the Bank 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 Bank's policy is to sell the repossessed property as soon as it is practicable.

During 2022, the Bank has an addition of repossessed property, represented by real estate with the value of GEL 5,526 thousand (2021: GEL 1,747 thousand) and sales of repossessed property with the value of GEL 4,595 thousand (2021: GEL 2,685 thousand). The Bank incurred GEL 1,467 thousand loss on net remeasurement and sales of the repossessed assets (2021: GEL 2 thousand loss).

(in thousands of Georgian Lari, unless otherwise stated)

8. Premises and equipment

	Land	*Premises*	*Office and computer equipment*	*Vehicles*	*Furniture, fixtures and other fixed assets*	*Leasehold impro−vements*	*Right of use assets*	*Total*
Cost								
As at 1 January 2021	**1,212**	**15,918**	**7,355**	**962**	**12,662**	**3,985**	**8,307**	**50,401**
Additions	−	501	146	59	961	346	2,017	**4,030**
Disposals	−	(360)	(497)	(22)	(187)	−	(1,134)	**(2,200)**
As at 31 December 2021	**1,212**	**16,059**	**7,004**	**999**	**13,436**	**4,331**	**9,190**	**52,231**
As at 1 January 2022	**1,212**	**16,059**	**7,004**	**999**	**13,436**	**4,331**	**9,190**	**52,231**
Additions	−	527	217	235	694	300	2,081	**4,054**
Disposals	(763)	(415)	−	−	(123)	−	(683)	**(1,984)**
As at 31 December 2022	**449**	**16,171**	**7,221**	**1,234**	**14,007**	**4,631**	**10,588**	**54,301**
Accumulated depreciation								
As at 1 January 2021	**−**	**4,668**	**6,138**	**667**	**8,526**	**2,515**	**2,404**	**24,918**
Depreciation charge	−	356	495	104	1,098	308	1,351	**3,712**
Disposals	−	−	(497)	(22)	(187)	−	(609)	**(1,315)**
As at 31 December 2021	**−**	**5,024**	**6,136**	**749**	**9,437**	**2,823**	**3,146**	**27,315**
As at 1 January 2022	**−**	**5,024**	**6.136**	**749**	**9,437**	**2,823**	**3,146**	**27,315**
Depreciation charge	−	358	487	138	973	334	1,443	**3,733**
Disposals	−	−	−	−	(123)	−	(683)	**(806)**
As at 31 December 2022	**−**	**5,382**	**6,623**	**887**	**10,287**	**3,157**	**3,906**	**30,242**
Net book value								
1 January 2021	**1,212**	**11,250**	**1,217**	**295**	**4,136**	**1,470**	**5,903**	**25,483**
31 December 2021	**1,212**	**11,035**	**868**	**250**	**3,999**	**1,508**	**6,044**	**24,916**
31 December 2022	**449**	**10,789**	**598**	**347**	**3,720**	**1,474**	**6,682**	**24,059**

Fully depreciated assets' book value was GEL 13,893 thousand as at 31 December 2022 and GEL 12,124 thousand as at 31 December 2021.

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

	Lease liabilities	
	2022	***2021***
Within one year	1,957	1,719
Between 1 and 2 years	1,913	1,589
Between 2 and 3 years	1,890	1,583
Between 3 and 4 years	1,224	1,557
Between 4 and 5 years	643	1,107
	7,627	**7,555**

9. Goodwill

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

The Bank is considered as a one cash−generating unit (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 thousands of Georgian Lari, unless otherwise stated)

9. Goodwill (continued)

In percent	*2022*	*2021*
Discount rate	21.1%	16.9%
Budgeted growth rate of free cash flows (average of next five years)	9.6%	5.5%
Terminal value growth rate	4.0%	5.8%

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

	2022	*2021*
Guarantee deposits placed in banks	2,434	4,051
Receivables	658	388
Settlement on plastic card	459	229
Financial assets at fair value through profit and loss (Note 17)	−	143
Other	74	83
Total other financial assets	**3,625**	**4,894**
Tax assets, other then income tax	1,489	−
Prepayments for the purchase of fixed assets	124	1,533
Other	1,153	1,735
Total other assets	**6,391**	**8,162**

Management estimates that ECL is immaterial as at 31 December 2022 and 2021.

The table below shows the fair values of foreign currency forward contracts, recorded as assets or liabilities (31 December 2022: included in other liabilities, 31 December 2021: included in other assets), 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.

	31 December 2022		*31 December 2021*	
Foreign currency forward contract	***Notional amount***	***Fair value***	***Notional amount***	***Fair value***
Sell USD buy GEL	−	−	18,586	51
Sell GEL buy USD	−	−	10,842	(1)
Sell USD buy EUR	35,899	(38)	59,661	93

11. Taxation

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

	2022	*2021*
Current tax expense		
Current year	1,994	2,072
Movement in temporary differences due to origination	1,236	743
Total income tax expense	**3,230**	**2,815**

(in thousands of Georgian Lari, unless otherwise stated)

11. Taxation (continued)

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

Reconciliation of effective tax rate

	2022	%	**2021**	%
Profit before tax	33,066		31,673	
Income tax at the applicable tax rate	4,960	15	4,751	15
Change in unrecognised deferred tax liabilities due to change in the legislation (Note 3)	315	1	207	1
Net non−taxable income	(2,045)	(6)	(2,143)	(7)
	3,230	**10**	**2,815**	**9**

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

Movement in temporary differences during the year

	1 January 2022	***Recognised in profit or loss***	***31 December 2022***
Loans to customers	(1,142)	(1,381)	(2,523)
Intangible assets	77	525	602
Other	(450)	(380)	(830)
	(1,515)	**(1,236)**	**(2,751)**

	1 January 2021	***Recognised in profit or loss***	***31 December 2021***
Loans to customers	(1,209)	67	(1,142)
Goodwill and other intangible assets	153	(76)	77
Tax loss carry−forwards	557	(557)	−
Other	(273)	(177)	(450)
	(772)	**(743)**	**(1,515)**

12. Loans from financial institutions and lease liabilities

	Currency	***Year of maturity***	***31 December 2022***	***31 December 2021***
Loans from the NBG	GEL	2023	106,727	117,597
Nederlandse FinancieringsMaatschappij Voor Ontwikkelingslanden N.V. (FMO)	GEL	2027	70,114	46,657
Deutsche Investitions− und Entwicklungsgesellschaft (DEG)	EUR	2023	38,341	38,837
ResponsAbility SICAV (Lux)	EUR	2025	28,763	−
European Investment Bank (EIB)	EUR	2024	5,082	−
COMMERZBANK	EUR	2023	3,476	3,557
ResponsAbility SICAV (Lux)	USD	2023	1,086	2,507
Black Sea Trade and Development Bank (BSTDB)	USD	2022	−	3,192
Lease liabilities	GEL	2023−2030	346	420
Lease liabilities	USD	2023−2032	6,619	6,841
Total			**260,554**	**219,608**

(in thousands of Georgian Lari, unless otherwise stated)

12. Loans from financial institutions and lease liabilities (continued)

Loans from the NBG with original maturities of less than 3 months is an instrument used for liquidity management purposes. The loans are secured by loans to customers with carrying value of GEL 37,691 thousand (2021: GEL 43,980 thousand) and investment securities with carrying value of GEL 143,726 thousand (2021: GEL 74,071). See Note 6 and Note 7.

13. Subordinated loans

	Currency	*Interest rates*	*Year of maturity*	*31 December 2022*	*31 December 2021*
Loan 1	USD	12.0%	2027	17,690	–
Loan 2	EUR	8.0%	2029	17,533	–
Loan 3	USD	6.0%	2025	12,163	23,240
Loan 4	EUR	7.3%	2027	8,812	10,679
Loan 5	USD	4.0%	2024	8,108	9,295
Loan 6	USD	11.0%	2025	2,454	3,736
Loan 7	USD	11.0%	2026	2,173	3,128
Loan 8	USD	7.3%	2025	1,865	2,138
Loan 9	EUR	6.0%	2025	1,443	1,752
Loan 10	USD	8.5%	2025	1,351	1,549
Loan 11	USD	8.0%	2027	1,351	1,549
Loan 12	USD	8.5%	2029	865	991
				75,808	**58,057**

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

Loan 1 denotes additional tier 1 (AT1) instrument with write off feature which is perpetually subordinated and included in the Bank`s capital for regulatory purposes.

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

No conversion features are present in the subordinated debt agreements as at 31 December 2022 and 2021.

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.

	Loans from financial institutions	*Lease liabilities*	*Subordinated loans*	*Total*
Balance at 1 January 2022	**212,347**	**7,261**	**58,057**	**277,665**
Cash flow from financing activities	50,862	(1,978)	26,556	**75,440**
Receipts of loans	318,241	–	38,961	**357,202**
Repayment of the loans	(267,379)	–	(12,405)	**(279,784)**
Payment of lease liabilities	–	(1,978)	–	**(1,978)**
Foreign exchange adjustments	(8,899)	(901)	(9,132)	**(18,932)**
Net movement on interest including foreign currency gain/(loss)	(721)	503	327	**109**
Addition	–	2,080	–	**2,080**
Modification on lease liabilities	–	–	–	**–**
Balance at 31 December 2022	**253,589**	**6,965**	**75,808**	**336,362**

(in thousands of Georgian Lari, unless otherwise stated)

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

	Loans from financial institutions	***Lease liabilities***	***Subordinated loans***	***Total***
Balance at 1 January 2021	**179,633**	**7,661**	**61,489**	**248,783**
Cash flow from financing activities	40,513	(2,132)	1,200	**39,581**
Receipts of loans	*355,799*	–	*3,502*	***359,301***
Repayment of the loans	*(315,286)*	–	*(2,302)*	***(317,588)***
Payment of lease liabilities	–	*(2,132)*	–	***(2,132)***
Foreign exchange adjustments	(7,442)	(398)	(4,602)	**(12,442)**
Net movement on interest including foreign currency gain/(loss)	(357)	603	(30)	**216**
Addition	–	1,616	–	**1,616**
Modification on lease liabilities	–	(89)	–	**(89)**
Balance at 31 December 2021	**212,347**	**7,261**	**58,057**	**277,665**

15. Deposits and balances from credit institutions

	2022	***2021***
Time deposits from credit institutions	–	11,218
Short−term placements of other credit institutions	53	60
Total deposits and balances from credit institutions	**53**	**11,278**

Time deposits from banks in 2021 are denominated mostly in EUR and USD.

16. Current accounts and deposits from customers

	2022	***2021***
Time deposits	716,357	656,648
Current accounts	242,772	233,849
Total current account and deposits from customers	**959,129**	**890,497**
Held as a security against guarantees and letters of credit issued	***11,435***	***8,243***

As at 31 December 2022, the Bank has 5 customers (2021: 0 customers), whose balances individually exceed 10% of equity. These balance as at 31 December 2022 equaled GEL 175,657 thousand.

	2022	***2021***
Individuals	422,391	437,602
Private enterprises	323,704	310,778
State and budgetary organizations	213,034	142,117
Total current account and deposits from customers	**959,129**	**890,497**

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

	2022	***2021***
Individuals	422,391	437,602
State and budgetary organizations	213,033	142,117
Trade and service	142,985	190,614
Construction	89,179	58,285
Insurance	39,060	25,779
Energy	9,512	43
Transport and communication	8,832	1,028
Non−banking credit organizations	3,483	875
Mining	43	1
Other	30,611	34,153
Total current account and deposits from customers	**959,129**	**890,497**

(in thousands of Georgian Lari, unless otherwise stated)

17. Other liabilities

	2022	2021
Accrued employee benefit costs	4,807	2,991
Settlements on plastic cards and money transfer operations	2,466	575
Financial liabilities from services received	682	736
Provisions for guarantees and credit related commitments	243	247
Financial liabilities at fair value through profit and loss	38	–
Other	459	407
Total other financial liabilities	**8,695**	**4,956**
Other provisions	1,779	1,969
Other	710	512
Total other liabilities	**11,184**	**7,437**

18. Equity

	Ordinary shares	
Number of shares	***2022***	***2021***
In issue at 1 January and 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.

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 2022 the Bank has not declared payment of dividends (2021: nil).

19. Net interest income calculated using the effective interest method

	2022	2021
Loans to customers	119,957	100,581
Investment securities	14,691	9,500
Cash and cash equivalents	1,912	799
Total interest income	**136,560**	**110,880**
Amounts due to customers	42,579	35,156
Loans from financial institutions and lease liabilities	27,438	18,377
Subordinated debts	4,335	4,098
Total interest expense	**74,352**	**57,631**
Net interest income	**62,208**	**53,249**

20. Fee and commission income and expenses

	2022	2021
Plastic card transactions	3,239	2,683
Settlement transactions	1,564	1,504
Servicing of current accounts	916	679
Cash transactions	685	587
Other	121	261
Total fee and commission income from contracts with customers	**6,525**	**5,714**
Financial guarantee contracts	1,594	1,355
Total fee and commission income	**8,119**	**7,069**
Plastic card transactions	2,384	2,226
Settlement transactions	357	475
Cash transactions	26	121
Other	583	501
Total fee and commission expenses	**3,350**	**3,323**
Net fee and commission income	**4,769**	**3,746**

(in thousands of Georgian Lari, unless otherwise stated)

20. Fee and commission income and expenses (continued)

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 Bank recognises revenue when service is provided 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 Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit cards and servicing fees. 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. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

21. Net gain from foreign exchange transactions

	2022	*2021*
Net gain from trading in foreign currencies	4,590	2,571
Net (loss)/gain from foreign exchange translation	(5,305)	(3,394)
Net gain from foreign currency forward contracts	354	1,413
Total net gain from foreign exchange transactions	**(361)**	**590**

Net gain from foreign currency forward contracts includes GEL 6,280 thousand (2021: GEL 6,186 Positive effect) positive effect due to the difference between spot and pre−agreed forward rates at the settlement date, which is also part of net gain from trading in foreign currencies in cash flow statement.

22. Other operating expenses

	2022	*2021*
Professional services	3,057	1,940
Advertising and marketing services	1,224	980
Lease expenses	966	740
Taxes other than on income	656	690
Utilities	579	475
Communications	572	491
Security expense	517	470
Expenses on other banking operations	469	334
Representative expenses	462	339
Office supply	441	208
Transportation and cash collection	404	429
Insurance	362	404
Plastic card expenses	286	71
Business trip expenses	59	29
Other	568	246
Total other operating expenses	**10,622**	**7,846**

For 2022 and 2021, lease expenses include expenses under low value and short−term lease contracts.

For 2022, professional fees paid to financial auditors comprised GEL 237 thousand (2021: GEL 252 thousand).

(in thousands of Georgian Lari, unless otherwise stated)

22. Other operating expenses (continued)

The following table presents average number of employees in 2022 and 2021:

	2022	*2021*
Top management	5	5
Middle management	44	45
Other permanent staff	458	399
Total permanent staff	**507**	**449**
Total temporary staff	69	72
	576	**521**

23. Credit related commitments

The Bank 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 Bank 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 Bank 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.

	2022	*2021*
Credit related commitments		
Financial guarantees	45,025	66,699
Total credit related commitments	**45,025**	**66,699**
Less: cash held as security against guarantees	(15,245)	(8,243)
Net exposure to guarantees	**29,780**	**58,456**
Undrawn loan commitments	**39,274**	**31,489**

As at 31 December 2022 the Bank allocates undrawn loan commitments mostly under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). As at 31 December 2022 the respective ECL amount is GEL 56 thousand (31 December 2021: GEL 65 thousand).

As at 31 December 2022 the Bank allocates financial guarantees under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2021: Stage 1). As at 31 December 2022 the respective ECL amount is GEL 187 thousand (31 December 2021: GEL 181 thousand).

24. Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Bank's operations. The major risks faced by the Bank 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 Bank, 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 Bank has developed a system of reporting on significant risks and capital.

As at 31 December 2022, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress−testing the Bank's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the NBG.

The Management Board with Risk Committee 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.

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

The management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank 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, although financial risk department is under supervision of the Chief Financial Officer. The CRO and the CFO report directly to the Chief Executive Officer.

The Risk Committee under Supervisory Board has responsibility for controlling the Bank's compliance with risk limits and capital adequacy ratios as established by the Bank's internal documentation. With the view of controlling effectiveness of the Bank's risk management procedures and their consistent application the Supervisory Board, Risk Committee 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 Bank 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 Bank 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 Bank's lending and other transactions with counterparties giving rise to financial assets.

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

	2022				*2021*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	120,723	3,249	607	**124,579**	60,944	18,206	1,842	**80,992**
Mandatory reserves with the NBG	118,569	−	−	**118,569**	146,155	−	−	**146,155**
Loans to customers	1,052,367	1,493	1,777	**1,055,637**	949,286	241	679	**950,206**
Investment securities	93,413	64,000	−	**157,413**	93,005	34,000	−	**127,005**
Other financial assets	3,625	−	−	**3,625**	4,894	−	−	**4,894**
	1,388,697	**68,742**	**2,384**	**1,459,823**	**1,254,284**	**52,447**	**2,521**	**1,309,252**

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

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, based on certain liquidity ratios established by the NBG. According to the NBG regulation monthly average Liquidity Coverage Ratio (LCR) should not be less than 100%. ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Financial Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by ALCO.

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

Liquidity risk and funding management (continued)

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:

As at 31 December 2022	*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	117,648	33,951	144,504	2,948	**299,051**
Current accounts and deposits from customers	591,964	265,527	108,940	18,588	**985,019**
Other financial liabilities	8,694	−	−	−	**8,694**
Subordinated loans	2,008	5,768	73,898	20,494	**102,168**
Derivative financial liabilities					
Inflow	35,914	−	−	−	**35,914**
Outflow	(38,489)	−	−	−	**(38,489)**
Total undiscounted financial liabilities	**717,739**	**305,246**	**327,342**	**42,030**	**1,392,357**

As at 31 December 2021	*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	144,806	24,147	113,230	2,889	**285,072**
Current accounts and deposits from customers	604,308	178,135	102,907	24,356	**909,706**
Other financial liabilities	4,956	−	−	−	**4,956**
Subordinated loans	1,162	4,411	61,046	6,345	**72,964**
Derivative financial liabilities					
Inflow	89,168	−	−	−	**89,168**
Outflow	(89,033)	−	−	−	**(89,033)**
Total undiscounted financial liabilities	**755,367**	**206,693**	**277,183**	**33,590**	**1,272,833**

The Bank 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 Bank is exposed to liquidity risk from its financial commitments and contingencies according to their contractual expiry dates:

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2022	39,664	16,194	22,771	5,670	84,299
31 December 2021	31,684	10,272	43,209	12,986	98,151

The Bank 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.

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

Market risk (continued)

The Bank 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.

Certain loan agreements with international financial institutions (IFI) impose financial and non−financial covenants on the Bank. During 2022, Bank was compliant with all covenants as at 31 December 2022.

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 Bank's borrowings bears floating interest rate, while the Bank's deposits and majority of loan portfolios are at fixed interest rate, NBG pays floating interest rate on minimum reserves that the Bank holds with the NBG. The Bank 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 Banks net income :

	2022	***2021***
Financial assets	753,745	762,985
Financial liabilities	(135,556)	(53,584)
Net interest sensitivity position	**618,189**	**709,401**
100 basis points increase of market interest rates	5,255	6,030
100 basis points decrease of market interest rates	(5,255)	(6,030)

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. During 2022, the Bank continued to design, processes and procedures to support the transition in the future periods when the majority of the Bank's IBOR−linked exposures are planned to be transitioned to the new benchmark rates.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable;
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

The Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs is applicable to loans to customers with carrying value of GEL 164,069 thousand and borrowed funds with carrying value of GEL 1,081 thousand as at 31 December 2022.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

Currency risk (continued)

The following tables show the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022 and 2021:

31 December 2022	***GEL***	***USD***	***EUR***	***Other currencies***	***Total***
Assets					
Cash and cash equivalents	29,283	52,962	2,662	713	85,620
Mandatory reserves with the NBG	–	99,217	19,352	–	118,569
Loans to customers	546,393	325,848	183,396	–	1,055,637
Investment securities	157,413	–	–	–	157,413
Other financial assets	1,070	654	1,852	49	3,625
Total assets	**734,159**	**478,681**	**207,262**	**762**	**1,420,864**
Liabilities					
Loans from financial institutions and lease liabilities and deposits and balances from banks	177,930	6,190	76,487	–	260,607
Current accounts and deposits from customers	426,354	460,327	71,104	1,344	959,129
Subordinated loans	–	47,759	28,049	–	75,808
Other financial liabilities	6,794	1,598	283	20	8,695
Total liabilities	611,078	515,874	175,923	1,364	1,304,239
Net balance sheet position	**123,081**	**(37,193)**	**31,339**	**(602)**	**116,625**
Effect of derivatives	–	35,914	(38,489)	–	(2,575)
Net position	**123,081**	**(1,279)**	**(7,150)**	**(602)**	**114,050**

31 December 2021	***GEL***	***USD***	***EUR***	***Other currencies***	***Total***
Assets					
Cash and cash equivalents	21,387	6,348	18,585	388	**46,708**
Mandatory reserves with the NBG	–	115,396	30,759	–	**146,155**
Loans to customers	411,680	353,740	184,786	–	**950,206**
Investment securities	127,005	–	–	–	**127,005**
Other financial assets	819	742	3,331	2	**4,894**
Total assets	**560,891**	**476,226**	**237,461**	**390**	**1,273,968**
Liabilities					
Loans from financial institutions and lease liabilities and deposits and balances from banks	165,188	11,742	53,956	–	**230,886**
Current accounts and deposits from customers	309,643	475,830	104,145	879	**890,497**
Subordinated loans	–	45,539	12,518	–	**58,057**
Other financial liabilities	4,616	200	124	16	**4,956**
Total liabilities	**479,447**	**533,311**	**170,743**	**895**	**1,184,396**
Net balance sheet position	**81,444**	**(57,085)**	**66,718**	**(503)**	**90,574**
Effect of derivatives	7,744	51,917	(59,661)	–	**–**
Net position	**89,188**	**(5,168)**	**7,057**	**(503)**	**90,574**

A (weakening)/strengthening of the GEL, as indicated below, against USD at 31 December 2022 and 2021, 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 Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of Georgian Lari, unless otherwise stated)

24. Risk management (continued)

Currency risk (continued)

	2022	*2021*
10% weakening of USD against GEL	109	439
10% strengthening of USD against GEL	(109)	(439)
10% weakening of EUR against GEL	608	(600)
10% strengthening of EUR against GEL	(608)	600

The following significant exchange rates applied during the year:

in GEL	*Average rate 2022*	*Average rate 2021*	*Reporting date spot rate 31 December 2022*	*Reporting date spot rate 31 December 2021*
USD 1	2.9156	3.2209	2.7020	3.0976
EUR 1	3.0792	3.8140	2.8844	3.5040

25. 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 except for disclosed below as at 31 December 2022 and 31 December 2021 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 realizable in an immediate sale of the assets or transfer of liabilities.

	Fair value measurement using			
At 31 December 2022	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total fair value***	***Carrying amount***
Assets for which fair values are disclosed				
Cash and cash equivalents	124,579	–	**124,579**	**124,579**
Mandatory reserve deposit with the National Bank of Georgia	118,569	–	**118,569**	**118,569**
Loans to customers	–	1,037,794	**1,037,794**	**1,055,637**
Investment securities	162,647	–	**162,647**	**157,413**
Derivative financial liabilities				
Financial liabilities at fair value through profit and loss	38	–	**38**	**38**
Liabilities for which fair values are disclosed				
Subordinated loans	–	71,714	**71,714**	**75,808**
Current accounts and deposits with customers	956,243	–	**956,243**	**959,129**
Lease liabilities	7,272	–	**7,272**	**6,965**

(in thousands of Georgian Lari, unless otherwise stated)

25. Fair value measurements (continued)

At 31 December 2021	*Fair value measurement using* *Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total fair value*	*Carrying amount*
Assets measured at fair value				
Derivative financial assets				
Financial assets at fair value through profit and loss	143	–	**143**	**143**
Assets for which fair values are disclosed				
Cash and cash equivalents	80,992	–	**80,992**	**80,992**
Mandatory reserve deposit with the National Bank of Georgia	146,155	–	**146,155**	**146,155**
Loans to customers	929,446	–	**929,446**	**950,206**
Investment securities	127,274	–	**127,274**	**127,005**
Liabilities for which fair values are disclosed				
Subordinated loans	56,056	–	**56,056**	**58,057**
Current accounts and deposits with customers	889,225	–	**889,225**	**890,497**
Lease liabilities	7,729	–	**7,729**	**7,261**

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non−financial assets and non−financial liabilities, as well as financial assets and liabilities, whose carrying amount are deemed to be not materially different from fair value.

	Carrying value 2022	*Fair value 2022*	*Unrecognised gain/(loss) 2022*	*Carrying value 2021*	*Fair value 2021*	*Unrecognised gain/(loss) 2021*
Financial assets						
Loans to customers	1,055,637	1,037,794	(17,843)	950,206	929,446	(20,760)
Investment securities	157,413	162,647	5,234	127,005	127,274	269
Financial liabilities						
Customer deposits	959,129	956,243	(2,886)	890,497	889,225	(1,272)
Subordinated loans	75,808	71,714	(4,094)	58,057	56,056	(2,001)
Lease liabilities	6,965	7,272	307	7,261	7,729	468
Total unrecognised change in fair value			**(19,282)**			**(23,296)**

(in thousands of Georgian Lari, unless otherwise stated)

26. Maturity analysis of financial assets and liabilities

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

	2022			*2021*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	124,579	–	**124,579**	80,992	–	**80,992**
Mandatory reserve deposit with the NBG	118,569	–	**118,569**	146,155	–	**146,155**
Loans to customers	64,678	990,959	**1,055,637**	80,511	869,695	**950,206**
Investment securities	71,266	86,147	**157,413**	51,940	75,065	**127,005**
Other financial assets	1,191	2,434	**3,625**	4,581	313	**4,894**
Total	**380,283**	**1,079,540**	**1,459,823**	**364,179**	**945,073**	**1,309,252**
Loans from financial institutions and lease liabilities and deposits and balances from banks	140,367	120,240	**260,607**	154,091	76,795	**230,886**
Current accounts and deposits from customers	843,898	115,231	**959,129**	772,237	118,260	**890,497**
Subordinated loans	1,904	73,904	**75,808**	1,775	56,282	**58,057**
Other financial liabilities	8,695	–	**8,695**	4,956	–	**4,956**
Total	**994,864**	**309,375**	**1,304,239**	**933,059**	**251,337**	**1,184,396**
Net gap	**(614,581)**	**770,165**	**155,584**	**(568,880)**	**693,736**	**124,856**

The Bank’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 2022, total amounts due to customers amounted to GEL 959,129 thousand (2021: GEL 890,497 thousand). The Bank 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 and Time Deposits end−of−month balances have not fallen on average below GEL 244,722 thousand (2021: GEL 231,795 thousand) and GEL 414, 347 thousand (2021: GEL 604,470) for the preceding 24 months, respectively. 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 Bank as with maturity of more than one year.

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 liquidity position is assessed and managed by the Bank on a standalone basis, based on certain liquidity ratios established by the NBG. Asset−Liability Committee is responsible for ensuring that treasury properly manages the Bank’s liquidity position. Decisions on liquidity positions and management are made by Asset−Liability Committee.

27. Related party disclosures

(a) Control relationships

Ultimate controlling party of the Bank is Sheikh Nahayan Mubarak Al Nahyan. The shareholding structure of the Bank is disclosed in Note 1 of these financial statements.

(b) Transactions with key management

Total remuneration included in personnel expenses for the years ended 31 December 2022 and 2021 is as follows:

	2022	*2021*
Salaries and other benefits	3,368	1,234

As at 31 December 2022 issued new loans is GEL 16 Thousand. (2021: the bank hasn’t issued any new loans) to its key management. The loans in 2022 were mainly long−term and bear average interest rate of 10.9%. In 2022 interest income accrued on the loans to the key management is GEL 7 thousand (In 2021: GEL 12 thousand).

(in thousands of Georgian Lari, unless otherwise stated)

27. Related party disclosures (continued)

(b) Transactions with key management (continued)

As at 31 December 2022 the key management placed deposits of GEL 585 thousand with the Bank (2021: GEL 1,735 thousand). The deposits bear average interest rate of 1% and mature within 1 year from the reporting date. In 2022 interest expense accrued on the term deposits from the key management is GEL 56 thousand (2021: GEL 81 thousand).

(c) Transactions with entities under common control

	Interest 2022	***Outstanding balance 2022***	***Interest 2021***	***Outstanding balance 2021***
Subordinated loan from an entity under common control	(1,252)	37,961	(1,836)	32,535
Current accounts and term deposits of entities under common control	585	5,572	1,892	5,335

Terms and conditions of the subordinated loan is disclosed in Note 13. In 2022 interest expense of GEL 1,252 thousand was accrued on subordinated loan from the related party (2021: GEL 1,836 thousand). The current accounts and term deposits mainly do not bear interest rate and are on demand. Interest expense of GEL 0 thousand was accrued on terms deposits from related parties (2021: GEL 5.9 thousand).

28. 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 Bank complied with all its externally imposed capital requirements at 31 December 2022 and 2021.

The NBG capital adequacy ratio

According to the NBG capital adequacy regulation (Decree N100/04 of 18 December 2017), capital requirements consist of a Pillar 1 minimum requirement (4.5%, 6.0%, 8.0% for CET1, Tier1 and Total Capital consequently), combined buffers (countercyclical – 0%, and conservation buffers – 2.5%) and Pillar 2 buffers. The initial regulation provided gradual introduction of Pillar 2 buffers over four−year period. In response to the COVID−19 pandemic, the NBG released regulatory capital requirements, by reducing Conservation buffer, 2/3 of CICR buffer, and postponing phase−in schedule for pillar 2 buffers.

Under IFRS regulations, NBG introduced a new Buffer − CRA buffer− to eliminate transformation effect on the Capital position. The CRA buffer is set as Pillar 2 requirement and fully set on CET 1 capital.

In June 2021, NBG announced to restore the buffers gradually. Banks are required to recover CICR buffer by 1 January 2023, and Conservation buffer – by 1 January 2024. Phase−in of the rest pillar 2 buffers will be according to the presented schedule.

	31 March 2023
CET1	56%
Tier 1	75%

According to NBG methodology of calculation CICR buffer is linked with dollarization of the portfolio. CICR RWA varies from 40% to 100% depending on the share of FX denominated loans. By the end of 2023 buffers must be restored.

(in thousands of Georgian Lari, unless otherwise stated)

28. Capital adequacy (continued)

The NBG capital adequacy ratio (continued)

In December 2022 JSC Terabank restored both CICR and Conservation buffers .

In March 2023, the NBG announced to set a countercyclical buffer on 1%, which will be mandatory from March 2024. In 2022, the NBG undertook the project of transferring supervision from Local GAAP to IFRS. Therefore starting from 2023 all regulatory metrics are calculated and adhered to per IFRS standards.

As at 31 December 2022 and 2021 the ratios were well above the respective regulatory minimums.

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

	2022	***2021***
Core capital	158,976	132,094
AT 1	17,563	–
Supplementary capital	48,409	47,458
Total regulatory capital	**224,948**	**179,552**
Risk weighted assets	**1,237,995**	**1,132,332**
Minimum total capital adequacy requirements	15.85%	12.51%
Total capital adequacy ratio	18.17%	15.86%
Minimum Tier 1 capital adequacy requirements	11.99%	8.09%
Tier 1 capital adequacy ratio	14.26%	11.67%

In 2022 bank received financing AT1 instrument for the purposes of facilitating planned expansion. The financing was received from the related party.

29. Contingencies

Operating environment

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

Litigation

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

Taxation contingencies

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

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

(in thousands of Georgian Lari, unless otherwise stated)

30. Events after the reporting date

After the year end, the Bank continued its usual business activities, which included raising financing from International Financial Institutions. Namely, the bank received GEL 45,000 thousand and EUR 6,200 thousand loans.