JSC Terabank

Financial statements

Year ended 31 December 2023
together with independent auditor's report

Contents

Independent auditor’s report

Financial statements

Notes to the financial statements

შპს იუაი
საქართველო, 0105, თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
www.ey.com/ge
www.facebook.com/EYGeorgia

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

Independent auditor's report

To the Board of Directors and the Supervisory Board of JSC Terabank

Report on the audit of the financial statements

Opinion

We have audited the financial statements of JSC Terabank (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 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 for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Bank's 2023 Management Report

Other information consists of the information included in the Bank's 2023 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Management Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Supervisory Board 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 Supervisory Board is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Building a better working world

We communicate with the Supervisory Board 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 (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

1 May 2024

Tbilisi, Georgia

Statement of financial position

As at 31 December 2023

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	*2023*	*2022*
Assets			
Cash and cash equivalents	6	79,418	124,579
Mandatory reserve deposit with the National Bank of Georgia		99,030	118,569
Loans to customers and financial lease receivables	8	1,278,374	1,055,637
Investment securities	7	157,585	157,413
Repossessed property	8	15,787	20,338
Premises and equipment	9	27,425	24,059
Other intangible assets		4,855	4,009
Goodwill	10	20,374	20,374
Prepaid income tax		–	1,489
Other assets	11	5,914	4,902
Total assets		**1,688,762**	**1,531,369**
Liabilities			
Loans from financial institutions and lease liabilities	13	210,505	260,554
Deposits and balances from credit institutions	16	10,163	53
Current accounts and deposits from customers	17	1,099,648	959,129
Current income tax liabilities		2,454	–
Deferred tax liability	12	1,395	2,751
Other liabilities	18	13,626	11,184
Subordinated loans	14	99,248	75,808
Total liabilities		**1,437,039**	**1,309,479**
Equity			
Share capital	19	121,372	121,372
Retained earnings		130,351	100,518
Total equity		**251,723**	**221,890**
Total liabilities and equity		1,688,762	**1,531,369**

These financial statements were approved by the Board of Directors on 1 May 2024 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 45.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	*2023*	*2022*
Interest income calculated using the effective interest method	20	164,564	136,560
Interest expense	20	(95,352)	(74,352)
Net interest income		**69,212**	**62,208**
Credit loss recovery/(expense)	5	(2,621)	5,582
Fee and commission income	21	9,564	8,119
Fee and commission expense	21	(4,468)	(3,350)
Net Gain/(Loss) from foreign exchange transactions	22	5,319	(361)
Other income		229	226
Operating income		**77,235**	**72,424**
Personnel expenses		(28,400)	(21,823)
Depreciation and amortization		(5,273)	(5,426)
Other provisions reversal/(charge)		(759)	(20)
Gain/(loss) from sale and revaluation of repossessed assets		3,951	(1,467)
Other operating expenses	23	(11,871)	(10,622)
Profit before income tax		**34,883**	**33,066**
Income tax expense	12	(5,050)	(3,230)
Profit and total comprehensive income for the year		**29,833**	**29,836**

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 45.

Statement of changes in equity

For the year ended 31 December 2023

(In thousands of Georgian Lari, unless otherwise stated)

	Share capital	*Retained earnings*	*Total equity*
Balance at 1 January 2022	**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**
Profit and total comprehensive income for the year	–	29,833	**29,833**
Balance at 31 December 2023	**121,372**	**130,351**	**251,723**

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 45.

Statement of cash flows

For the year ended 31 December 2023

(In thousands of Georgian Lari, unless otherwise stated)

	Notes	2023	2022
Cash flows from operating activities			
Interest received		161,289	138,171
Interest paid		(90,701)	(73,445)
Fees and commissions received		9,549	8,119
Fees and commissions paid		(4,468)	(3,296)
Net (loss)/gain received from trading in foreign currencies	22	1,068	10,870
Other operating income received		206	226
Personnel expenses paid		(25,299)	(23,639)
Other operating expenses paid		(11,718)	(11,763)
Cash received from sale of repossessed assets		14,915	4,269
Income tax paid		(2,461)	(3,705)
Cash flows from operating activities before changes in operating assets and liabilities		**52,380**	**45,807**
Changes in:			
Mandatory reserve deposits with the National Bank of Georgia		18,936	11,701
Loans to customers		(220,744)	(184,120)
Other assets and repossessed property		(38)	6,752
Deposits and balances from banks		10,043	(11,483)
Current accounts and deposits from customers		140,340	141,199
Other liabilities		(4,204)	4,534
Net cash used in operating activities		**(3,287)**	**14,390**
Cash flows from investing activities			
Acquisition of investment securities		(101,000)	(232,758)
Proceeds from redemption of investment securities		101,790	203,126
Acquisition of premises and equipment		(6,975)	(3,474)
Proceeds from disposal of premises and equipment		22	599
Acquisition of intangible assets		(2,416)	(2,673)
Net cash used in investing activities		**(8,579)**	**(35,180)**
Cash flows from financing activities			
Repayment of lease liabilities		(1,909)	(1,978)
Receipts of the loans from the financial institutions		86,290	318,241
Repayment of the loans from the financial institutions		(138,115)	(267,379)
Repayment of the subordinated loans		(1,328)	(12,405)
Proceeds from subordinated loans		22,136	38,961
Net cash from financing activities	15	**(32,926)**	**75,440**
Effect of exchange rates changes on cash and cash equivalents		(369)	(11,063)
Net (decrease)/increase in cash and cash equivalents		**(45,161)**	**43,587**
Cash and cash equivalents, beginning	6	124,579	80,992
Cash and cash equivalents, ending	6	**79,418**	**124,579**

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 45.

(in thousands of Georgian Lari, unless otherwise stated)

1. Reporting entity

Organisation and operations

JSC Terabank (the “Bank”) a Georgian commercial bank holding a general banking license from 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 32 branches, service centers and service desks (2022: 31), which are located in all major cities of Georgia.

As at 31 December 2023 and 2022, the Bank’s shareholding structure is as follows:

Owners	***2023 Ownership interest, %***	***2022 Ownership interest, %***
Sheikh Nahayan Mabarak Al Nahayan	65%	65%
Sheikh Mohamed Buti Al Hamed	15%	15%
Sheikh Mansoor 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 28.

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

2. Basis of preparation

(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.

These financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated and is rounded to the nearest thousand.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information

New and amended standards

The Bank applied for the first−time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023.The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments became effective as at 1 January 2023:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- IFRS 17 Insurance Contracts
- Definition of Accounting Estimates – Amendments to IAS 8
- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12, effective from 1 January 2023, narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with right−of−use assets and lease liabilities.

The Bank previously did not recognize deferred tax assets and liabilities attributable to right−of−use assets and lease liabilities. Accordingly, in these financial statements the Bank recognize deferred tax assets and liabilities in relation to leases entered into on or after 1 January 2022, being the earliest comparative period presented. This did not affect materially statement of financial position as at 1 January 2022 and 31 December 2022 or profit or loss for the year ended 31 December 2022, as the difference between resulting deferred tax assets and liabilities at those dates was not material and they were subject to offset in accordance with IAS 12. The Bank amended presentation of its deferred tax assets and liabilities in Note 12 accordingly, including comparative periods.

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

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2 −the amendments have had an impact on the Bank’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank’s financial statements.

The Bank revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Bank has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Bank chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is effective for reporting periods beginning on or after 1 January 2023. 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. Limited scope exceptions will apply. The Bank evaluated insurance risks associated with its contracts, taking into consideration the scope exclusions for certain banking products. The Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Other amendments and interpretations that apply for the first time in 2023 do not have an impact on the Bank’s financial statements.

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

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material 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.

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.

The Bank does not have financial assets measured at FVOCI.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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.

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;
- Significant extension of the maturity date;
- Change from a floating−rate financial instrument to a fixed−rate instrument, or vice versa

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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.

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. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

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.

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 5).

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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

Measurement of ECLs

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

- 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 5.

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 5);
- 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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policies (continued)

(d) Financial assets and financial liabilities (continued)

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.

(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 and financial lease receivables

'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.

Recognition and initial measurement

JSC Terabank recognizes assets under financial lease in the statement of financial performance and presents them as receivables, in the amount equal to the net lease investment. In order to measure net lease investment, the Bank uses interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the net lease investment and reduce the amount of income earned in course of the lease. Interest rate implicit in a lease shall be determined in the way automatically reflecting initial direct costs in the net lease investment and it is not required to add them separately.

Initial carrying amount of finance lease receivable is calculated as follows:

Asset price less amount of received co-payment, resulting amount of which represents initial carrying amount of the lease receivable.

(g) Investment securities

The 'investment securities' caption in the statement of financial position includes: debt investment securities measured at amortised cost; 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) 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. Material accounting policies (continued)

(j) 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.

(k) 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.

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.

(l) 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.

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.

(m) 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.

(n) 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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policies (continued)

(o) Income tax

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

Current tax

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

Deferred tax

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.

(p) 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.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are not expected to have a material impact on the Bank's financial statements. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective:

- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;
- Amendments to IAS 1: Classification of Liabilities as Current or Non−current;
- Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7.

4. Significant accounting judgments and estimates

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.

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 or disclosed in the financial statements 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 26.

(in thousands of Georgian Lari, unless otherwise stated)

4. Significant accounting judgments and estimates (continued)

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

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 and 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 2023, the Bank introduced certain changes in its process of estimation of expected credit losses:

1. Category contamination at the group level is subject to individual review on a quarterly basis and applies only to those groups for which the total liability of the group in the reporting period exceeds GEL 600. If the deterioration of the category during group contamination is caused by a client(s) whose total liability is immaterial (has less than 5% of the group's liability), contamination at the group level is not applied.
2. Improving the category for customers with seasonal payments:
    - Condition for withdrawal from Stage 3 to Stage 2 − if the client has fully paid the payments of one seasonal cycle and was not overdue for more than 30 days, it is possible to improve the category by one stage. In addition, it is necessary for the client to be in the STAGE 3 category for at least 6 months;
    - Condition for withdrawing from Stage 2 to Stage 1 − if the client has fully paid the payments of one seasonal cycle and was not overdue for more than 30 days, it is possible to improve the category by one stage. In addition, it is necessary for the client to be in the STAGE 2 category for at least 6 months;

The effect of the change in methodology in 2023 profit or loss was immaterial.

(in thousands of Georgian Lari, unless otherwise stated)

4. 5. Financial risk review

Expected credit loss allowance

	2023				2022			
Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January	**2,927**	**8,091**	**14,283**	**25,301**	**2,557**	**12,956**	**13,389**	**28,902**
Transfer to Stage 1	3,327	(1,859)	(1,468)	**–**	2,641	(2,641)	–	**–**
Transfer to Stage 2	(100)	1,258	(1,158)	**–**	(83)	1,327	(1,244)	**–**
Transfer to Stage 3	(43)	(609)	652	**–**	(41)	(1,836)	1,877	**–**
Unwinding	–	–	–	**–**	–	–	464	**464**
Net remeasurement of loss allowance	(4,086)	(2,772)	3,154	**(3,704)**	(3,853)	(2,751)	(383)	**(6,987)**
New financial assets originated or purchased	5,474	–	–	**5,474**	3,898	–	–	**3,898**
Transfer to Stage 2	(1,117)	1,117	–	**–**	(1,036)	1,036	–	**–**
Transfer to Stage 3	(1,710)	–	1,710	**–**	(1,156)	–	1,156	**–**
Write−offs	–	–	(2,639)	**(2,639)**	–	–	(976)	**(976)**
As at 31 December	**4,672**	**5,226**	**14,534**	**24,432**	**2,927**	**8,091**	**14,283**	**25,301**

	2023				2022			
Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January	**455**	**278**	**2,481**	**3,214**	**473**	**559**	**2,907**	**3,939**
Transfer to Stage 1	229	(57)	(172)	**–**	225	(225)	–	**–**
Transfer to Stage 2	(6)	161	(155)	**–**	(4)	423	(419)	**–**
Transfer to Stage 3	(10)	(56)	66	**–**	(7)	(37)	44	**–**
Unwinding	–	–	–	**–**	–	–	41	**41**
Net remeasurement of loss allowance	(398)	(134)	2,020	**1,488**	(506)	(532)	705	**(333)**
New financial assets originated or purchased	1,277	–	–	**1,277**	908	–	–	**908**
Transfer to Stage 2	(191)	191	–	**–**	(90)	90	–	**–**
Transfer to Stage 3	(664)	–	664	**–**	(544)	–	544	**–**
Write−offs	–	–	(1,772)	**(1,772)**	–	–	(1,341)	**(1,341)**
As at 31 December	**692**	**383**	**3,132**	**4,207**	**455**	**278**	**2,481**	**3,214**

	2023				2022			
Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January	**156**	**151**	**1,311**	**1,618**	**171**	**493**	**1,008**	**1,672**
Transfer to Stage 1	82	(82)	–	**–**	231	(231)	–	**–**
Transfer to Stage 2	(3)	241	(238)	**–**	(1)	310	(309)	**–**
Transfer to Stage 3	(1)	(13)	14	**–**	(1)	(79)	80	**–**
Unwinding	–	–	–	**–**	–	–	11	**11**
Net remeasurement of loss allowance	(108)	(148)	357	**101**	(291)	(342)	370	**(263)**
New financial assets originated or purchased	140	–	–	**140**	439	–	–	**439**
Transfer to Stage 2	(87)	87	–	**–**	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**	(392)	–	392	**–**
Write−offs	–	–	(281)	**(281)**	–	–	(241)	**(241)**
As at 31 December	**179**	**236**	**1,163**	**1,578**	**156**	**151**	**1,311**	**1,618**

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)

Expected credit loss allowance (continued)

	2023				2022			
Finance lease receivables	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January	–	**–**	**–**	**–**	–	**–**	**–**	**–**
Transfer to Stage 1	–	–	–	**–**	–	–	**–**	**–**
Transfer to Stage 2	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**	–	–	–	**–**
Net remeasurement of loss allowance	–	–	–	**–**	–	–	–	**–**
Repayments through repossessing	–	–	–	**–**	–	–	–	**–**
New financial assets originated or purchased	30	–	–	**30**	–	–	–	**–**
Write−offs	–	–	–	**–**	–	–	–	**–**
As at 31 December	**30**	**–**	**–**	**30**	–	**–**	**–**	**–**

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

	2023					
	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***	***Finance lease receivables***	***Total***
Net remeasurement of loss allowance	(3,704)	1,488	101	–	–	**(2,115)**
New financial assets originated or purchased	5,474	1,277	140	–	30	**6,921**
Subtotal	**1,770**	**2,765**	**241**	**–**	**30**	**4,806**
Recoveries of amounts previously written off	(370)	(1,536)	(278)	(1)	–	**(2,185)**
Total	**1,400**	**1,229**	**(37)**	**(1)**	**30**	**2,621**

	2022					
	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***	***Finance lease receivables***	***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)

5. Financial risk review (continued)

Expected credit loss allowance (continued)

The significant changes in the gross carrying amount of the Loans to customers and finance lease receivables` portfolio are further explained below.

	2023				*2022*			
Business loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January	**744,231**	**62,300**	**36,255**	**842,786**	**622,127**	**106,023**	**32,499**	**760,649**
Transfer to Stage 1	16,873	(13,141)	(3,732)	**–**	31,949	(31,949)	–	**–**
Transfer to Stage 2	(26,573)	31,316	(4,743)	**–**	(21,004)	23,595	(2,591)	**–**
Transfer to Stage 3	(10,874)	(7,607)	18,481	**–**	(7,020)	(10,171)	17,191	**–**
New financial assets originated or purchased	488,110	–	–	**488,110**	391,858	–	–	**391,858**
Transfer to Stage 2	(12,454)	12,454	–	**–**	(9,006)	9,006	–	**–**
Transfer to Stage 3	(3,908)	–	3,908	**–**	(4,157)	–	4,157	**–**
Repayments and other movements (including foreign currency revaluations)	(267,402)	(26,489)	(12,074)	**(305,965)**	(260,516)	(34,204)	(15,180)	**(309,900)**
Unwinding	–	–	–	**–**	–	–	1,157	**1,157**
Write−offs	–	–	(2,639)	**(2,639)**	–	–	(978)	**(978)**
As at 31 December	**928,003**	**58,833**	**35,456**	**1,022,292**	**744,231**	**62,300**	**36,255**	**842,786**

	2023				*2022*			
Consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January	**110,441**	**2,281**	**4,426**	**117,148**	**91,832**	**4,629**	**4,999**	**101,460**
Transfer to Stage 1	1,354	(699)	(655)	**–**	2,055	(2,055)	–	**–**
Transfer to Stage 2	(1,723)	2,025	(302)	**–**	(683)	1,245	(562)	**–**
Transfer to Stage 3	(2,841)	(470)	3,311	**–**	(1,191)	(318)	1,509	**–**
New financial assets originated or purchased	87,082	–	–	**87,082**	69,602	–	–	**69,602**
Transfer to Stage 2	(1,539)	1,539	–	**–**	(678)	678	–	**–**
Transfer to Stage 3	(1,261)	–	1,261	**–**	(933)	–	933	**–**
Repayments and other movements (including foreign currency revaluations)	(54,102)	(1,263)	(624)	**(55,989)**	(49,563)	(1,898)	(1,300)	**(52,761)**
Unwinding	–	–	–	**–**	–	–	188	**188**
Write−offs	–	–	(1,772)	**(1,772)**	–	–	(1,341)	**(1,341)**
As at 31 December	**137,411**	**3,413**	**5,645**	**146,469**	**110,441**	**2,281**	**4,426**	**117,148**

	2023				*2022*			
Mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January	**91,915**	**1,838**	**3,674**	**97,427**	**92,993**	**6,829**	**2,370**	**102,192**
Transfer to Stage 1	1,147	(1,147)	–	**–**	3,191	(3,191)	–	**–**
Transfer to Stage 2	(1,981)	2,872	(891)	**–**	(457)	979	(522)	**–**
Transfer to Stage 3	(725)	(125)	850	**–**	(329)	(1,362)	1,691	**–**
New financial assets originated or purchased	28,833	–	–	**28,833**	27,808	–	–	**27,808**
Transfer to Stage 2	(2,843)	2,843	–	**–**	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**	(1,047)	–	1,047	**–**
Repayments and other movements (including foreign currency revaluations)	(24,570)	(838)	(1,176)	**(26,584)**	(30,244)	(1,417)	(712)	**(32,373)**
Unwinding	–	–	–	**–**	–	–	41	**41**
Write−offs	–	–	(281)	**(281)**	–	–	(241)	**(241)**
As at 31 December	**91,776**	**5,443**	**2,176**	**99,395**	**91,915**	**1,838**	**3,674**	**97,427**

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)

Expected credit loss allowance (continued)

Pawn loans	*2023* Stage 1	Stage 2	Stage 3	Total	*2022* Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January	**28,409**	**–**	**–**	**28,409**	**20,418**	**–**	**–**	**20,418**
Transfer to Stage 1	–	–	–	–	–	–	–	**–**
Transfer to Stage 2	–	–	–	–	–	–	–	**–**
Transfer to Stage 3	–	–	–	–	–	–	–	**–**
New financial assets originated or purchased	1,702	–	–	**1,702**	5,442	–	–	**5,442**
Repayments and other movements (including foreign currency revaluations)	(4,465)	–	–	**(4,465)**	2,549	–	**–**	**2,549**
Write−offs	–	–	–	**–**	–	–	–	–
As at 31 December	**25,646**	**–**	**–**	**25,646**	**28,409**	**–**	**–**	**28,409**

Finance lease receivables	*2023* Stage 1	Stage 2	Stage 3	Total	*2022* Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 1	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 2	–	–	–	**–**	–	–	–	**–**
Transfer to Stage 3	–	–	–	**–**	–	–	–	**–**
New financial assets originated or purchased	14,819	–	–	**14,819**	–	–	–	**–**
Repayments and other movements (including foreign currency revaluations)	–	–	–	**–**	–	–	–	**–**
Recovery	–	–	–	**–**	–	–	–	**–**
Write−offs	–	–	–	**–**	–	–	–	**–**
As at 31 December	**14,819**	**–**	**–**	**14,819**	**–**	**–**	**–**	**–**

Credit quality analysis

The following table provides information on the credit quality of loans to customers and finance lease receivables as at 31 December 2023 and 31 December 2022:

Loans to customers at amortised cost – Business loans	*31 December 2023* Stage 1	Stage 2	Stage 3	Total	*31 December 2022* Stage 1	Stage 2	Stage 3	Total
Not overdue	891,854	36,906	10,952	**939,712**	724,917	52,138	14,495	**791,550**
Overdue less than 30 days	36,148	14,913	3,657	**54,718**	19,312	6,381	562	**26,255**
Overdue 30−90 days	−	7,015	4,414	**11,429**	−	3,782	2,140	**5,922**
Overdue more than 90 days	−	−	16,433	**16,433**	−	−	19,059	**19,059**
Total business loans, gross	**928,002**	**58,834**	**35,456**	**1,022,292**	**744,229**	**62,301**	**36,256**	**842,786**
Loss allowance	(4,671)	(5,227)	(14,534)	**(24,432)**	(2,927)	(8,091)	(14,283)	**(25,301)**
Carrying amount	**923,331**	**53,607**	**20,922**	**997,860**	**741,302**	**54,210**	**21,973**	**817,485**

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)

Credit quality analysis (continued)

Loans to customers at amortised cost – Consumer loans	*31 December 2023*				*31 December 2022*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Not overdue	134,984	1,476	969	**137,429**	108,878	1,175	1,367	**111,420**
Overdue less than 30 days	2,427	446	525	**3,398**	1,564	411	594	**2,569**
Overdue 30−90 days	−	1,492	541	**2,033**	−	695	320	**1,015**
Overdue more than 90 days	−	−	3,609	**3,609**	−	−	2,144	**2,144**
Total consumer loans, gross	**137,411**	**3,414**	**5,644**	**146,469**	**110,442**	**2,281**	**4,425**	**117,148**
Loss allowance	(693)	(382)	(3,132)	**(4,207)**	(455)	(277)	(2,481)	**(3,213)**
Carrying amount	**136,718**	**3,032**	**2,512**	**142,262**	**109,987**	**2,004**	**1,944**	**113,935**

Loans to customers at amortised cost – Mortgage loans	*31 December 2023*				*31 December 2022*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Not overdue	90,258	3,961	350	**94,569**	90,396	1,404	2,232	**94,032**
Overdue less than 30 days	1,519	896	144	**2,559**	1,519	236	297	**2,052**
Overdue 30−90 days	−	659	−	**659**	−	198	−	**198**
Overdue more than 90 days	−	−	1,608	**1,608**	−	−	1,145	**1,145**
Total mortgage loans, gross	**91,777**	**5,516**	**2,102**	**99,395**	**91,915**	**1,838**	**3,674**	**97,427**
Loss allowance	(179)	(238)	(1,161)	**(1,578)**	(157)	(152)	(1,310)	**(1,619)**
Carrying amount	**91,598**	**5,278**	**941**	**97,817**	**91,758**	**1,686**	**2,364**	**95,808**

Loans to customers at amortised cost – Pawn loans	*31 December 2023*				*31 December 2022*			
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Not overdue	25,646	−	−	**25,646**	28,409	−	−	**28,409**
Overdue less than 30 days	−	−	−	**−**	−	−	−	**−**
Overdue 30−90 days	−	−	−	**−**	−	−	−	**−**
Overdue more than 90 days	−	−	−	**−**	−	−	−	**−**
Total pawn loans, gross	**25,646**	**−**	**−**	**25,646**	**28,409**	**−**	**−**	**28,409**
Loss allowance	−	−	−	**−**	−	−	−	**−**
Carrying amount	**25,646**	**−**	**−**	**25,646**	**28,409**	**−**	**−**	**28,409**

	31 December 2023				*31 December 2022*			
Finance lease receivables	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Not overdue	13,196	−	−	**13,196**	−	−	−	**−**
Overdue less than 30 days	1,623	−	−	**1,623**	−	−	−	**−**
Overdue 30−90 days	−	−	−	**−**	−	−	−	**−**
Overdue more than 90 days	−	−	−	**−**	−	−	−	**−**
Total pawn loans, gross	**14,819**	**−**	**−**	**14,819**	**−**	**−**	**−**	**−**
Loss allowance	(30)	−	−	**(30)**	−	−	−	**−**
Carrying amount	**14,789**	**−**	**−**	**14,789**	**−**	**−**	**−**	**−**

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

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)

Credit quality analysis (continued)

	2023	*2022*
Loans modified during the period		
Restructured loans during the period	8,394	10,568
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	1,344	425
Restructured Stage 1 Loans Exposure	11,171	5,385

In absence of collateral or other credit enhancements, ECL in respect of individually assessed Stage 3 loans to customers as of 31 December 2023 would have been higher by:

	2023	*2022*
Business loans	11,929	16,273
Consumer loans	622	1,011
Mortgage loans	703	754
Total ECL	**13,254**	**18,038**

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

6. Cash and cash equivalents

	2023	*2022*
Cash on hand	**41,420**	**38,959**
Accounts with the NBG	**19,758**	**28,814**
Current accounts with other credit institutions		
rated A− to A+	241	939
rated BBB− to BBB+	795	1,847
rated from BB− to BB+	16,813	52,949
rated from B− to B+	90	−
not rated	301	1,071
Total current accounts with other credit institutions	**18,240**	**56,806**
Total cash and cash equivalents	**79,418**	**124,579**

No cash and cash equivalents are past due or impaired. As at 31 December 2023 the Bank had one bank account (2022: one bank account), which balance exceeds 10% of equity. As at 31 December 2023 the Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2022: Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. Investment securities

	2023	*2022*
Investment securities measured at amortized cost		
Corporate securities	140,986	74,406
Government securities of the Ministry of Finance of Georgia	16,781	68,235
Certificates of deposit of the National Bank of Georgia	−	14,819
Total gross carrying value	**157,767**	**157,460**
Expected credit losses	(182)	(47)
Total net investment securities	**157,585**	**157,413**

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

Investment securities are not pledged as collateral for loans from the National Bank of Georgia in 2023 (2022: 69,719) (Note 13).

(in thousands of Georgian Lari, unless otherwise stated)

7. Investment securities (continued)

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

	31 December 2023		*31 December 2022*	
	Nominal interest rate, %	***Maturity***	***Nominal interest rate, %***	***Maturity***
Investment securities	8−14	2025−2028	7−15	2023−2028

No investment securities are past due or impaired. As at 31 December 2023 the Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (2022: Stage 1).

Movements in the credit loss allowance of investment securities measured at amortized cost for the year ended 31 December 2023 was GEL 135 (2022: GEL 12).

8. Loans to customers and finance lease receivables

	2023	***2022***
Business loans	1,022,292	842,786
Consumer loans	146,469	117,148
Mortgage loans	99,395	97,427
Gold pawn loans	25,646	28,409
Loans to customers, gross	**1,293,802**	**1,085,770**
Less: allowance for impairment (Note 5)	(30,217)	(30,133)
Loans to customers, net	**1,263,585**	**1,055,637**
Finance lease receivables, gross	**14,819**	**–**
Less: allowance for impairment (Note 5)	(30)	–
Finance lease receivables, net	**14,789**	**–**
Net loans to customers and finance lease receivables	**1,278,374**	**1,055,637**

Information about expected credit losses and credit quality of loans is disclosed in Note 5.

(a) Industry and geographical analysis of the loan to customers and finance lease receivables

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

	2023	***2022***
Trading and service	497,813	389,853
Construction	300,987	251,627
Individuals	245,862	214,574
Agriculture and food processing	164,362	131,152
Healthcare	31,296	24,754
Gold pawn	25,646	28,409
Energy	15,150	15,271
Financial institutions	10,727	17,139
Other	16,778	12,991
Gross loans to customers and finance lease Receivables	**1,308,621**	**1,085,770**

Loans are not pledged in 2023 (2022: GEL 37,691) under the loans received from the NBG. See Note 13.

(b) Significant credit exposures

As at 31 December 2023 none of the balances of the Bank’s borrowers exceeds 10% of equity (2022: none).

As at 31 December 2023, the Bank had a concentration of loans represented by GEL 99,764 due from the ten largest borrowers (2022: GEL 100,443). An allowance of GEL 258 (2022: GEL 246) was recognised against these loans.

(in thousands of Georgian Lari, unless otherwise stated)

8. Loans to customers and finance lease receivables (continued)

(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.

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

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

	Net exposures					
At 31 December 2023	***Real estate***	***Cash collateral***	***Other***	***No collateral***	***Precious metals***	***Total***
Business	908,074	19,393	48,150	21,867	376	**997,860**
Consumer	43,111	9,510	44,120	45,521	–	**142,262**
Mortgage	97,585	161	71	–	–	**97,817**
Gold pawn	–	–	15,829	–	9,817	**25,646**
Leasing			14,789			**14,789**
Total	**1,048,770**	**29,064**	**122,959**	**67,388**	**10,193**	**1,278,374**

	Net exposures					
At 31 December 2022	***Real estate***	***Cash collateral***	***Other***	***No collateral***	***Precious metals***	***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**
Leasing	–	–	–	–	–	**–**
Total	**866,931**	**22,701**	**84,879**	**71,636**	**9,490**	**1,055,637**

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 assets mainly represent 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 assets as soon as it is practicable.

During 2023, the Bank has an addition of repossessed assets with the value of GEL 6,413 (2022: GEL 5,526) and sales of repossessed assets with the value of GEL 10,728 (2022: GEL 4,595). The Bank incurred GEL 3,951 gain on sales of the repossessed assets (2022: GEL 1,467 loss).

(in thousands of Georgian Lari, unless otherwise stated)

9. 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 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**
As at 1 January 2023	**449**	**16,171**	**7,221**	**1,234**	**14,007**	**4,631**	**10,588**	**54,301**
Additions	−	3,311	487	223	2,556	493	1,426	**8,496**
Disposals	−	(15)	−	−	−	(547)	(2,061)	**(2,623)**
As at 31 December 2023	**449**	**19,467**	**7,708**	**1,457**	**16,563**	**4,577**	**9,953**	**60,174**
Accumulated depreciation								
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**
As at 1 January 2023	**−**	**5,382**	**6,623**	**887**	**10,287**	**3,157**	**3,906**	**30,242**
Depreciation charge	−	373	375	171	907	373	1,504	**3,703**
Disposals	−	(8)	−	−	−	(547)	(641)	**(1,196)**
As at 31 December 2023	**−**	**5,747**	**6,998**	**1,058**	**11,194**	**2,983**	**4,769**	**32,749**
Net book value								
1 January 2022	**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**
31 December 2023	**449**	**13,720**	**710**	**399**	**5,369**	**1,594**	**5,184**	**27,425**

Fully depreciated assets' book value was GEL 17,339 as at 31 December 2023 and GEL 13,893 as at 31 December 2022.

Future lease payments for each of the next five years for the year ended 31 December 2023 and 2022 are as follows:

	Lease liabilities	
	2023	***2022***
Within one year	2,320	1,957
Between 1 and 2 years	2,169	1,913
Between 2 and 3 years	1,429	1,890
Between 3 and 4 years	662	1,224
Between 4 and 5 years	397	643
	6,977	**7,627**

10. Goodwill

Goodwill of GEL 20,374 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 percent	***2023***	***2022***
Discount rate	19.6%	21.1%
Budgeted growth rate of free cash flows (average of next five years)	17.3%	9.6%
Terminal value growth rate	5.0%	4.0%

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.

(in thousands of Georgian Lari, unless otherwise stated)

11. Other assets

	2023	2022
Guarantee deposits placed in banks	2,282	2,434
Receivables	1,317	658
Settlement on plastic card	185	459
Other	146	74
Total other financial assets	**3,930**	**3,625**
Prepayments for the purchase of fixed assets	785	124
Tax asset	–	1,489
Other	1,199	1,153
Total other assets	**5,914**	**6,391**

Management estimates that ECL is immaterial as at 31 December 2023 and 2022.

12. Taxation

	2023	2022
Current tax expense		
Current year	6,406	1,994
Movement in temporary differences due to origination and reversal of temporary differences	(1,356)	1,236
Total income tax expense	**5,050**	**3,230**

The income tax rate applicable to the Bank's income is 20% (2022: 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

	2023	%	2022	%
Profit before tax	34,883		33,066	
Income tax at the applicable tax rate	6,977	20	4,960	15
Change in unrecognised deferred tax liabilities due to change in the legislation (Note 3)	43	-	315	1
(Non-taxable income) / non-deductible expenses	(2,417)	(7)	(2,045)	(6)
Other non-taxable expenses	447	1	-	-
	5,050	**14**	**3,230**	**10**

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.

As the amendments were enacted the existing corporate tax rate for banks 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) were defined per IFRS, instead of local National Bank of Georgia regulations.

The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. As at 31 December 2022, the Bank determined that accumulated temporary differences related to gross carrying value of loans to customers would be taxed at 15% at transition, similarly to the transition rules applicable to temporary differences for ECL. Following a clarification from relevant authorities obtained subsequent to 2022 financial statements release date, the applicable tax rate for such differences was set at 20%.

Deferred tax assets and liabilities as of 31 December 2023 and 2022 and their movements for the respective years comprise:

(in thousands of Georgian Lari, unless otherwise stated)

12. Taxation (continued)

Movement in temporary differences during the year

	1 January 2023	*Recognised in profit or loss*	*31 December 2023*
Lease liabilities	1,393	(272)	1,121
Repossessed assets	1,036	(299)	737
Other intangible assets	603	(281)	322
Subordinated debt	(52)	74	22
Other liabilities	(117)	135	18
Other assets	11	–	11
Deferred tax asset	**2,874**	**(643)**	**2,231**
Loans to customers	(2,524)	2,524	–
Investment securities	(11)	(77)	(88)
Amounts due to credit institutions	(312)	(45)	(357)
Right of use assets	(1,336)	300	(1,036)
Premises and equipment	(1,442)	(703)	(2,145)
Deffered tax liabilities	**(5,625)**	**1,999**	**(3,626)**
Deferred tax (liability)/asset	**(2,751)**	**1,356**	**(1,395)**

	1 January 2022	*Recognised in profit or loss*	*31 December 2022*
Lease liabilities	233	1,160	1,393
Repossessed assets	–	1,036	1,036
Other intangible assets	78	525	603
Other assets	–	11	11
Deferred tax asset	**311**	**2,732**	**3,043**
Investment securities	–	(11)	(11)
Subordinated debt	(13)	(39)	(52)
Other liabilities	(111)	(6)	(117)
Amounts due to credit institutions	(74)	(238)	(312)
Right of use assets	(203)	(1,133)	(1,336)
Premises and equipment	(283)	(1,159)	(1,442)
Loans to customers	(1,142)	(1,382)	(2,524)
Deferred tax liabilities	**(1,826)**	**(3,968)**	**(5,794)**
Deferred tax (liability)/asset	**(1,515)**	**(1,236)**	**(2,751)**

13. Loans from financial institutions and lease liabilities

	Currency	*Year of maturity*	*31 December 2023*	*31 December 2022*
Nederlandse FinancieringsMaatschappij Voor Ontwikkelingslanden N.V. (FMO)	GEL	2024−2028	109,174	70,114
Deutsche Investitions− und Entwicklungsgesellschaft (DEG)	EUR	2025−2026	27,742	38,341
ResponsAbility SICAV (Lux)	USD	2024−2025	25,723	28,763
ResponsAbility SICAV (Lux)	EUR	2024−2026	24,386	1,086
European Investment Bank (EIB)	EUR	2029−2030	17,876	5,082
Loan from the NBG	GEL	2023	–	106,727
COMMERZBANK	EUR	2023	–	3,476
Lease liabilities	USD	2025−2033	5,317	6,619
Lease liabilities	GEL	2025−2030	287	346
Total			**210,505**	**260,554**

Loans from the NBG with original maturities of less than 3 months is an instrument used for liquidity management purposes. The loans are not secured by loans to customers in 2023 (2022: GEL 37,691) and are not secured by investment securities in 2023 (2022: GEL 143,726). See Note 7 and Note 8.

(in thousands of Georgian Lari, unless otherwise stated)

14. Subordinated loans

	Currency	*Year of maturity*	*31 December 2023*	*31 December 2022*
Loan 1	EUR	2029	18,251	17,533
Loan 2	USD	2028	18,148	−
Loan 3	USD	2027	17,608	17,690
Loan 4	USD	2029	12,433	12,163
Loan 5	EUR	2027	9,211	8,812
Loan 6	USD	2024	8,070	8,108
Loan 7	USD	2029	5,380	−
Loan 8	USD	2025	1,856	1,865
Loan 9	USD	2025	1,631	2,454
Loan 10	USD	2026	1,621	2,173
Loan 11	EUR	2025	1,488	1,443
Loan 12	USD	2025	1,345	1,351
Loan 13	USD	2027	1,345	1,351
Loan 14	USD	2029	861	865
			99,248	**75,808**

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 2 and Loan 3 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 2023 and 2022.

15. 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 2023	**253,589**	**6,965**	**75,808**	**336,362**
Cash flow from financing activities	(51,825)	(1,909)	20,808	**(32,926)**
Receipts of loans	*86,290*	−	*22,136*	***108,426***
Repayment of the loans	*(138,115)*	−	*(1,328)*	***(139,443)***
Payment of lease liabilities	−	*(1,909)*	−	***(1,909)***
Foreign exchange adjustments	2,798	(10)	1,348	**4,136**
Net movement on interest including foreign currency gain/(loss)	339	448	957	**1,744**
Disposals	−	(1,137)	−	**(1,137)**
Addition	−	1,426	−	**1,426**
Modification on lease liabilities and subordination loans	−	(179)	327	**148**
Balance at 31 December 2023	**204,901**	**5,604**	**99,248**	**309,753**

(in thousands of Georgian Lari, unless otherwise stated)

15. 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 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**
Balance at 31 December 2022	**253,589**	**6,965**	**75,808**	**336,362**

16. Deposits and balances from credit institutions

	2023	*2022*
Time deposits from credit institutions	109	−
Short−term placements of other credit institutions	10,054	53
Total deposits and balances from credit institutions	**10,163**	**53**

Time deposits from banks in 2023 are denominated mostly in GEL.

17. Current accounts and deposits from customers

	2023	*2022*
Time deposits	830,285	716,357
Current accounts	269,363	242,772
Total current account and deposits from customers	**1,099,648**	**959,129**
Held as a security against guarantees and letters of credit issued	**8,855**	**11,435**

As at 31 December 2023, the Bank has 3 customers (2022: 5 customers), whose balances individually exceed 10% of equity. These balance as at 31 December 2023 equaled GEL 146,253.

	2023	*2022*
Individuals	485,352	422,391
Private enterprises	316,797	323,704
State and budgetary organizations	297,499	213,034
Total current account and deposits from customers	**1,099,648**	**959,129**

(in thousands of Georgian Lari, unless otherwise stated)

17. Current accounts and deposits from customers (continued)

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

	2023	*2022*
Individuals	485,354	422,391
State organizations	297,498	213,033
Trade and service	148,040	142,985
Construction	77,308	89,179
Insurance	38,990	39,060
Non−banking credit organizations	17,706	3,483
Transport and communication	5,273	8,832
Mining	224	43
Energy	86	9,512
Other	29,169	30,611
Total current account and deposits from customers	**1,099,648**	**959,129**

18. Other liabilities

	2023	*2022*
Accrued employee benefit costs	5,926	4,807
Settlements on plastic cards and money transfer operations	2,409	2,466
Financial liabilities from services received	1,550	682
Provisions for guarantees and credit related commitments	909	243
Financial liabilities at fair value through profit and loss	687	38
Financial liabilities from leasing operations	306	−
Other	1,266	459
Total other financial liabilities	**13,053**	**8,695**
Other provisions	59	1,779
Other	514	710
Total other liabilities	**13,626**	**11,184**

The table below shows the fair values of foreign currency forward contracts, recorded as assets or liabilities (31 December 2023 and 2022: included in other liabilities), together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset reference rate, the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year−end and are not indicative of the credit risk.

	31 December 2023		*31 December 2022*	
Foreign currency forward contract	***Notional amount***	***Fair value***	***Notional amount***	***Fair value***
Sell GEL buy EUR	49,732	(515)	−	−
Sell GEL buy USD	2,688	(3)	−	−
Sell USD buy EUR	41,481	(169)	35,899	(38)

19. Equity

	Ordinary shares	
Number of shares	***2023***	***2022***
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.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Bank. In 2023 and 2022 the Bank has not declared payment of dividends.

(in thousands of Georgian Lari, unless otherwise stated)

20 Net interest income calculated using the effective interest method

	2023	*2022*
Loans to customers and finance lease receivables	144,289	119,957
Investment securities	16,867	14,691
Cash and cash equivalents	3,408	1,912
Total interest income	**164,564**	**136,560**
Amounts due to customers	60,896	42,579
Loans from financial institutions and lease liabilities	31,795	27,438
Subordinated debts	2,661	4,335
Total interest expense	**95,352**	**74,352**
Net interest income	**69,212**	**62,208**

21. Fee and commission income and expenses

	2023	*2022*
Plastic card transactions	4,533	3,239
Settlement transactions	1,552	1,564
Servicing of current accounts	1,146	916
Cash transactions	766	685
Other	196	121
Total fee and commission income from contracts with customers	**8,193**	**6,525**
Financial guarantee contracts	1,372	1,594
Total fee and commission income	**9,564**	**8,119**
Plastic card transactions	3,195	2,384
Settlement transactions	536	357
Cash transactions	74	26
Other	663	583
Total fee and commission expenses	**4,468**	**3,350**
Net fee and commission income	**5,096**	**4,769**

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.

(in thousands of Georgian Lari, unless otherwise stated)

22. Net gain from foreign exchange transactions

	2023	*2022*
Net gain from trading in foreign currencies	3,548	4,590
Net (loss)/gain from foreign exchange translation	78	(5,305)
Net gain from foreign currency forward contracts	1,693	354
Total net gain/(loss) from foreign exchange transactions	**5,319**	**(361)**

Net gain from foreign currency forward contracts includes GEL 1,838 (2022: GEL 6,280 positive effect) negative 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.

23. Other operating expenses

	2023	*2022*
Expenses on other banking operations	2,821	469
Professional services	1,430	3,057
Advertising and marketing services	1,209	1,224
Lease expenses	981	966
Taxes other than on income	775	656
Security expense	718	517
Representative expenses	639	462
Communications	604	572
Utilities	603	579
Transportation and cash collection	480	404
Office supply	363	441
Insurance	250	362
Plastic card expenses	201	286
Business trip expenses	91	59
Other	706	568
Total other operating expenses	**11,871**	**10,622**

For 2023 and 2022, lease expenses include expenses under low value and short−term lease contracts.

Auditor’s remuneration for the audit of the Bank’s 2023 finical statements amounts to GEL 209 (2022: GEL 185).

The following table presents average number of employees in 2023 and 2022:

	2023	*2022*
Top management	5	5
Middle management	50	44
Other permanent staff	533	458
Total permanent staff	**588**	**507**
Total temporary staff	54	69
Total	**642**	**576**

24. 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.

(in thousands of Georgian Lari, unless otherwise stated)

24. Credit related commitments (continued)

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.

	2023	***2022***
Credit related commitments		
Financial guarantees	43,343	45,025
Total credit related commitments	**43,343**	**45,025**
Less: cash held as security against guarantees	(8,855)	(15,245)
Net exposure to guarantees	**34,488**	**29,780**
Undrawn loan commitments	**62,442**	**39,274**

As at 31 December 2023 the expected credit loss related to the undrawn loan commitments is GEL 624 (31 December 2022: GEL 794).

As at 31 December 2023 the expected credit loss related to the financial guarantees is GEL 769 (31 December 2022: GEL 187).

25. 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 2023, 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 Board of Directors 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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk is monitored by credit and risk departments. There are several levels of approval based on loan amount and total exposure to client. 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 is also exposed to credit risk arising from guarantees, letters of credit and outstanding credit commitments. 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.

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 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 and sanctioned retail loans (payroll/credit card/overdraft) with the maximum amount of GEL 30 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.

Credit risk – amounts arising from ECL

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.

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.Credit risk – amounts arising from ECL (continued)

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)

Credit risk – amounts arising from ECL

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 rear cases, which Bank assess separately.

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.

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.

Incorporation of forward−looking information

The Bank has identified and documented the key drivers of credit risk and credit losses for the portfolio using an analysis of historical data and has assessed the impact of macro−economic variables on probability of default rate. The Real growth rate of GDP of Georgia, macro−economic variable is involved in the analysis.

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.

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)

Credit risk – amounts arising from ECL (continued)

EAD for overdrafts, credit cards and credit lines is calculated directly from the historical data, for these purposes utilization rates – weight of disbursed exposure from the approved limit – of all defaulted overdrafts and credit cards are calculated. See also Material accounting policies Note (3), (d) Financial assets and financial liabilities

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.

Credit quality of loans to customers are described in Note (5) Financial risk review.

The Bank manages and controls credit risk by setting financial, business and reputational eligibility criteria and conducting due diligence on its customers, clients and counterparts; by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations; and by monitoring exposures in relation to such limits.

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

	2023				***2022***			
	Georgia	***OECD***	***CIS and other foreign countries***	***Total***	***Georgia***	***OECD***	***CIS and other foreign countries***	***Total***
Assets								
Cash and cash equivalents	78,140	666	612	**79,418**	120,723	3,249	607	**124,579**
Mandatory reserves with the NBG	99,030	−	−	**90,030**	118,569	−	−	**118,569**
Loans to customers and finance lease receivables	1,273,781	2,223	2,370	**1,278,374**	1,052,367	1,493	1,777	**1,055,637**
Investment securities	47,753	109,832	−	**157,585**	93,413	64,000	−	**157,413**
Other financial assets	3,930	−	−	**3,930**	3,625	−	−	**3,625**
	1,502,634	**112,721**	**2,982**	**1,618,337**	**1,388,697**	**68,742**	**2,384**	**1,459,823**

Liquidity risk and funding management

Liquidity risk refers to the possibility that the bank might not possess enough financial resources to fulfill all its responsibilities promptly or could only obtain these resources at a significant expense. Liquidity management is a key part of asset and liability management. The risk is managed by the Financial Risks and Reporting division and Treasury Department. The bank carefully oversees its assets, ensuring they can be easily converted into cash when needed, and it consistently tracks both upcoming cash flows and liquidity levels every day. The endorsed Liquidity Risk Management Framework guarantees that the bank fulfills its payment responsibilities in both typical and stressful scenarios. The Bank

(in thousands of Georgian Lari, unless otherwise stated)

maintains a diversified funding structure to manage the respective liquidity risks. These funds are sourced from international financial institutions (IFIs) and local banks through long−term arrangements.

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBG. The liquidity coverage ratio (LCR) is calculated as the ratio of high−quality liquid assets (HQLA) to net cash outflow over the next 30 days. The LCR enhances short−term resilience. The total LCR limit set at 100%, the NBG defines limits per currency for the GEL and foreign currencies. ALCO is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The liquidity risk position and compliance with internal limits are closely monitored by the ALCO of JSC Terabank. As of 31 December 2023, the bank disclosed the following Liquidity Coverage Ratio (LCR) levels:

	2023	***2022***
National currency (GEL)	122%	108%
Foreign currency	131%	161%
Total	126%	137%

From 1 September 2019, the NBG introduced the minimum requirement for Net Stable Financing Ratio (NSFR) for commercial banks in Georgia, which should be at least 100%. The NSFR is calculated as the ratio of available amount of stable funding over the required amount of stable funding. A solid buffer over NSFR provides stable funding sources over a longer time span. NSFR as at 31 December 2023 was 121.40%, (2022: 123.76%), all comfortably above the

Liquidity risk and funding management (continued)

NBG's minimum regulatory requirements.

The Bank's liquidity position was strong as of 31 December 2023, both LCR and NSFR ratios above the NBG minimum requirements of 100%.

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 2023	***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 deposits and balances from banks	19,546	51,570	200,910	5,460	**277,486**
Lease liabilities	431	1,261	3,446	461	**5,599**
Current accounts and deposits from customers	614,083	396,236	122,136	7,379	**1,139,834**
Other financial liabilities	13,056	−	−	−	**13,056**
Subordinated loans	3,807	15,651	69,985	47,038	**136,481**
Derivative financial liabilities					
Inflow	94,582	−	−	−	**94,582**
Outflow	(95,269)	−	−	−	**(95,269)**
Total undiscounted financial liabilities	**650,236**	**464,718**	**396,477**	**60,338**	**1,571,769**

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 deposits and balances from banks	116,818	32,897	140,264	2,107	**292,086**
Lease liabilities	830	1,054	4,240	841	**6,965**
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	**717,739**	**305,246**	**327,342**	**42,030**	**1,392,357**

(in thousands of Georgian Lari, unless otherwise stated)

liabilities

The Bank considers the maximum liquidity risk of all its undrawn loan commitments as less than 3 months, as this is the earliest period when 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 guarantees 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 2023	72,665	12,444	18,518	2,158	**105,785**
31 December 2022	39,664	16,194	22,771	5,670	**84,299**

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

25. Risk management (continued)

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.

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 2023, Bank was compliant with all covenants as at 31 December 2023.

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:

	2023	*2022*
Financial assets	987,378	753,745
Financial liabilities	(231,202)	(135,556)
Net interest sensitivity position	**756,176**	**618,189**
100 basis points increase of market interest rates	7,562	5,255
100 basis points decrease of market interest rates	**(7,562)**	**(5,255)**

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. The following tables show the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023 and 2022:

31 December 2023	*GEL*	*USD*	*EUR*	*Other currencies*	*Total*
Assets					
Cash and cash equivalents	19,862	11,943	5,698	495	**37,998**
Mandatory reserves with the NBG	−	79,439	19,591	−	**99,030**
Loans to customers and finance	635,827	405,007	237,540	−	**1,278,374**

(in thousands of Georgian Lari, unless otherwise stated)

lease receivables					
Investment securities	157,585	–	–	–	**157,585**
Other financial assets	956	1,065	1,869	40	**3,930**
Total assets	**814,230**	**497,454**	**264,698**	**535**	**1,576,917**
Liabilities					
Loans from financial institutions and lease liabilities and deposits and balances from banks	120,540	28,094	72,034	–	**220,668**
Current accounts and deposits from customers	579,070	444,214	74,717	1,647	**1,099,648**
Subordinated loans	–	70,082	29,166	–	**99,248**
Other financial liabilities	13,021	(84)	102	14	**13,053**
Total liabilities	**712,631**	**542,306**	**176,019**	**1,661**	**1,432,617**
Net balance sheet position	**101,599**	**(44,852)**	**88,679**	**(1,126)**	**144,300**
Effect of derivatives	52,979	38,788	(92,454)	–	**(687)**
Net position	**154,578**	**(6,064)**	**(3,775)**	**(1,126)**	**143,613**

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**

A (weakening)/strengthening of the GEL, as indicated below, against USD at 31 December 2023 and 2022, 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.

	2023	***2022***
10% weakening of USD against GEL	515	109
10% strengthening of USD against GEL	(515)	(109)
10% weakening of EUR against GEL	330	608
10% strengthening of EUR against GEL	(330)	(608)

The following significant exchange rates applied during the year:

In GEL	***Average Rate 2023***	**Average Rate 2022**	***Reporting Rate Spot 2023***	***Reporting Rate Spot 2022***
USD 1	2.6279	2.9156	2.6894	2.7020
EUR 1	2.8416	3.0792	2.9753	2.8844

(in thousands of Georgian Lari, unless otherwise stated)

26. 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 2023 and 31 December 2022 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 2023	***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	79,418	–	**79,418**	**79,418**
Mandatory reserve deposit with the National Bank of Georgia	99,030	–	**99,030**	**99,030**
Loans to customers and finance lease receivables	–	1,230,593	**1,230,593**	**1,278,374**
Investment securities	167,593	–	**167,593**	**157,585**
Derivative financial liabilities				
Financial liabilities at fair value through profit and loss	687	–	**687**	**687**
Liabilities for which fair values are disclosed				
Subordinated loans	–	103,037	**103,037**	**99,248**
Current accounts and deposits with customers	1,095,360	–	**1,095,360**	**1,099,648**
Lease liabilities	5,789	–	**5,789**	**5,604**

	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)

	Carrying value 2023	*Fair value 2023*	*Unrecognised gain/(loss) 2023*	*Carrying value 2022*	*Fair value 2022*	*Unrecognised gain/(loss) 2022*
Financial assets						
Loans to customers and finance lease receivables	1,278,374	1,230,593	(47,781)	1,055,637	1,037,794	(17,843)
Investment securities	157,585	167,593	10,008	157,413	162,647	5,234
Financial liabilities						
Customer deposits	1,099,648	1,095,360	(4,288)	959,129	956,243	(2,886)
Subordinated loans	99,248	103,037	3,789	75,808	71,714	(4,094)
Lease liabilities	5,604	5,789	185	6,965	7,272	307
Total unrecognised change in fair value			**(38,087)**			**(19,282)**

27. 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.

	2023			*2022*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	79,418	–	**79,418**	124,579	–	**124,579**
Mandatory reserve deposit with the NBG	99,030	–	**99,030**	118,569	–	**118,569**
Loans to customers and finance lease receivables	188,992	1,089,382	**1,278,374**	64,678	990,959	**1,055,637**
Investment securities	–	157,585	**157,585**	71,266	86,147	**157,413**
Other financial assets	1,648	2,282	**3,930**	1,191	2,434	**3,625**
Total	**369,088**	**1,249,249**	**1,618,337**	**380,283**	**1,079,540**	**1,459,823**
Loans from financial institutions and lease liabilities and deposits and balances from banks	53,950	166,718	**220,668**	140,367	120,240	**260,607**
Current accounts and deposits from customers	985,117	114,531	**1,099,648**	843,898	115,231	**959,129**
Subordinated loans	9,795	89,453	**99,248**	1,904	73,904	**75,808**
Other financial liabilities	13,053	–	**13,053**	8,695	–	**8,695**
Total	**1,061,915**	**370,702**	**1,432,617**	**994,864**	**309,375**	**1,304,239**
Net gap	**(692,827)**	**878,547**	**185,720**	**(614,581)**	**770,165**	**155,584**

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 2023, total amounts due to customers amounted to GEL 1,099,648 (2022: GEL 959,129). 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 245,557 (2022: GEL 244,722) and GEL 477,235 (2022: GEL 414,347) 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.

(in thousands of Georgian Lari, unless otherwise stated)

28. 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 and supervisory board members

Total remuneration included in personnel expenses for the years ended 31 December 2023 and 2022 is as follows:

	2023	***2022***
Salaries and other benefits	3,146	3,368

As at 31 December 2023 issued new loans is GEL 752 (2022: 16) to its key management and supervisory board members. The loans in 2023 were mainly long−term and bear average interest rate of 7.5%. In 2023 interest income accrued on the loans to the key management is GEL 17 (2022: GEL 7).

As at 31 December 2023 the key management and supervisory board members placed deposits of GEL 2,617 with the Bank (2022: GEL 585). The deposits bear average interest rate of 3.2% and mature within 1 year from the reporting date. In 2023 interest expense accrued on the term deposits from the key management is GEL 82 (2022: GEL 56).

(c) Transactions with entities under common control

	Interest 2023	***Outstanding balance 2023***	***Interest 2022***	***Outstanding balance 2022***
Subordinated loan from an entity under common control	(1,352)	20,503	(1,252)	37,961
Subordinated loan – AT1 instrument	(2,715)	35,756	(126)	17,690
Current accounts and term deposits of entities under common control	435	6,942	585	5,572

Terms and conditions of the subordinated loans is disclosed in Note 14.

29. 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 2023 and 2022.

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 2022, 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. . Under the IFRS transition process, the NBG introduced a credit risk adjustment (CRA) buffer. The CRA buffer was implemented as a Pillar 2 requirement and was fully set on CET 1 capital.

In March 2023, the Financial Stability Committee of the NBG decided to set the neutral (base) rate of the countercyclical buffer at 1%. Banks are required to accumulate a countercyclical capital buffer according to a predetermined schedule: 0.25% by March 2024, 0.50% by March 2025, 0.75% by March 2026 and fully phased−in 1% by March 2027.

(in thousands of Georgian Lari, unless otherwise stated)

29. Capital adequacy (continued)

The NBG capital adequacy ratio (continued)

As at 31 December 2023 and 2022 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 2023 and 31 December 2022:

	2023	***2022 ****
Core capital	226,492	158,976
AT 1	34,962	17,563
Supplementary capital	47,348	48,409
Total regulatory capital	**308,802**	**224,948**
Risk weighted assets	**1,402,761**	**1,237,995**
Minimum total capital adequacy requirements	17.90%	15.85%
Total capital adequacy ratio	22.01%	18.17%
Minimum Tier 1 capital adequacy requirements	14.55%	11.99%
Tier 1 capital adequacy ratio	18.64%	14.26%

In 2023 bank received additional AT1 instrument for the purposes of facilitating planned expansion. The financing was received from the related party at market terms.

* *The 2023 and 2022 capital adequacy numbers are not comparable as 2023 figures are calculated under IFRS, while 2022 was calculated under the NBG statutory requirements.*

30 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.

31. Events after the reporting date

In January 2024, the Bank received a subordinated loan in foreign currency equivalent of GEL 1,183 due in 2032. The transaction has been approved by the NBG and is eligible to be included to the Bank's Tier 2 capital.