

JSC Terabank

Financial statements

Year ended 31 December 2024

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Independent auditor's report

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

Opinion

We have audited the financial statements of JSC Terabank (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2024, 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 2024 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 2024 Management Report

Other information consists of the information included in the Bank's 2024 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2024 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.
- ▶ Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank as a basis for forming an opinion on the financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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)

7 May 2025

Tbilisi, Georgia

Statement of financial position**As at 31 December 2024***(In thousands of Georgian Lari, unless otherwise stated)*

	Notes	2024	2023
Assets			
Cash and cash equivalents	6	119,364	79,418
Mandatory reserve deposit with the National Bank of Georgia		143,289	99,030
Loans to customers and financial lease receivables	8	1,406,462	1,278,374
Investment securities	7	181,936	157,585
Reposessed property	8	33,948	15,787
Premises and equipment	9	29,864	27,425
Other intangible assets	10	11,229	4,855
Goodwill	10	20,374	20,374
Prepaid income tax	12	5,511	-
Other assets	11	9,988	5,914
Total assets		1,961,965	1,688,762
Liabilities			
Loans from financial institutions and lease liabilities	13	380,537	210,505
Deposits and balances from credit institutions	16	5,078	10,163
Current accounts and deposits from customers	17	1,182,644	1,099,648
Current income tax liabilities		-	2,454
Deferred tax liability	12	2,817	1,395
Other liabilities	18	15,023	13,626
Subordinated loans	14	93,304	99,248
Total liabilities		1,679,403	1,437,039
Equity			
Share capital	19	121,372	121,372
Retained earnings		161,190	130,351
Total equity		282,562	251,723
Total liabilities and equity		1,961,965	1,688,762

These financial statements were approved by the Board of Directors on 7 May 2025 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 50.

Statement of profit or loss**For the year ended 31 December 2024***(In thousands of Georgian Lari, unless otherwise stated)*

	Notes	2024	2023
Interest income calculated using the effective interest method	20	189,215	164,564
Interest expense	20	(112,558)	(95,352)
Net interest income		76,657	69,212
Credit loss expense	5	(5,488)	(2,621)
Fee and commission income	21	10,251	9,564
Fee and commission expense	21	(5,113)	(4,468)
Net gain/(loss) from foreign exchange transactions	22	7,515	5,319
Other income		1,273	229
Operating income		85,095	77,235
Personnel expenses		(29,340)	(28,400)
Depreciation and amortization	9,10	(6,538)	(5,273)
Other provisions reversal/(charge)		380	(759)
Gain/(loss) from sale and revaluation of repossessed assets		228	3,951
Other operating expenses	23	(13,658)	(11,871)
Profit before income tax		36,167	34,883
Income tax expense	12	(5,328)	(5,050)
Profit and total comprehensive income for the year		30,839	29,833

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 50.

Statement of changes in equity**For the year ended 31 December 2024***(In thousands of Georgian Lari, unless otherwise stated)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance at 1 January 2023	121,372	100,518	221,890
Profit and for the year	–	29,833	29,833
Balance at 31 December 2023	121,372	130,351	251,723
Profit for the year	–	30,839	30,839
Balance at 31 December 2024	121,372	161,190	282,562

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 50.

Statement of cash flows**For the year ended 31 December 2024***(In thousands of Georgian Lari, unless otherwise stated)*

	Notes	2024	2023
Cash flows from operating activities			
Interest received		189,937	161,289
Interest paid		(111,100)	(90,701)
Fees and commissions received		10,256	9,549
Fees and commissions paid		(5,113)	(4,468)
Net (loss)/gain received from trading in foreign currencies	22	8,316	1,068
Other operating income received		1,112	206
Personnel expenses paid		(27,043)	(25,299)
Other operating expenses paid		(13,568)	(11,718)
Cash received from sale of repossessed assets		5,344	14,915
Income tax paid		(11,871)	(2,461)
Cash flows from operating activities before changes in operating assets and liabilities		46,270	52,380
<i>Changes in:</i>			
Mandatory reserve deposits with the National Bank of Georgia		(41,707)	18,936
Loans to customers		(143,021)	(220,744)
Other financial assets		(4,097)	(38)
Deposits and balances from banks		(4,956)	10,043
Current accounts and deposits from customers		63,507	140,340
Other financial liabilities		(323)	(4,204)
Net cash used in operating activities		(84,327)	(3,287)
Cash flows from investing activities			
Acquisition of investment securities		(30,500)	(101,000)
Proceeds from redemption of investment securities		5,625	101,790
Acquisition of premises and equipment		(5,352)	(6,975)
Proceeds from disposal of premises and equipment		507	22
Acquisition of intangible assets		(8,899)	(2,416)
Net cash used in investing activities		(38,619)	(8,579)
Cash flows from financing activities			
Repayment of lease liabilities		(2,007)	(1,909)
Receipts of the loans from the financial institutions		212,688	86,290
Repayment of the loans from the financial institutions		(41,987)	(138,115)
Repayment of the subordinated loans		(9,606)	(1,328)
Proceeds from subordinated loans		1,183	22,136
Net cash from financing activities	15	160,271	(32,926)
Effect of exchange rates changes on cashS and cash equivalents		2,621	(369)
Net increase/(decrease) in cash and cash equivalents		39,946	(45,161)
Cash and cash equivalents, beginning	6	79,418	124,579
Cash and cash equivalents, ending	6	119,364	79,418

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 50.

(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 activity is the provision of a wide range of retail and corporate banking services. These include accepting deposits, extending credit, facilitating domestic and international payments, currency exchange, and offering various other banking services to both retail and corporate customers.

The Bank’s registered legal address is 3 K. Tsamebuli Avenue, Tbilisi, 0103, Georgia. The Bank operates through 31 branches, service centers and service desks (2023: 32), which are located in all major cities of Georgia.

As at 31 December 2024 and 2023, the Bank’s shareholding structure is as follows:

Owners	2024 Ownership interest, %	2023 Ownership interest, %
Sheikh Nahayan Mabarak Al Nahayan	80%	65%
Sheikh Mohamed Buti Al Hamed	15%	15%
Sheikh Mansoor Bin Zayed Bin Sultan Al-Nahyan	0%	15%
Investment Trading Group LLC	5%	5%
	100%	100%

The Bank’s ownership structure includes the following associates:

Associates	2024 Ownership interest, %	2023 Ownership interest, %
LLC Standard Leasing	20%	20%
LLC Credit Union Refinancing Company	40%	40%

LLC Standard Leasing’s registered legal address is 43 I. Chavchavadze avenue, Tbilisi, 0179, Georgia.

LLC Credit Union Refinancing Company’ registered legal address is 43 I. Chavchavadze avenue, Tbilisi, 0179, Georgia.

The charter capital is GEL 2 and GEL 2,6, respectively. Both entities are currently dormant.

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 following amendments to existing IFRS accounting standards became effective for annual periods beginning on 1 January 2024:

- ▶ Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1

The amendments to IAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within 12 months.

- ▶ Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

The amendments in IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

- ▶ Disclosures: Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

The amendments clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

None of these amendments have material impact on the Bank's financial statements at 31 December 2024.

(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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(b) Interest (continued)

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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(d) Financial assets and financial liabilities (continued)

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

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(d) Financial assets and financial liabilities (continued)

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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(d) Financial assets and financial liabilities (continued)

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.

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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(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

Reposessed property represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at cost and subsequently measured at the lower of cost and net realizable value 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.

(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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(k) Premises and equipment (continued)

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

Intangible assets include computer software, customer relations and licenses.

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.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Bank can demonstrate:

- ▶ The technical feasibility of completing the intangible asset so that the asset will be available for use;
- ▶ Its intention to complete and its ability and intention to use;
- ▶ How the asset will generate future economic benefits;
- ▶ The availability of resources to complete the asset;
- ▶ The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

(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.

(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.

(in thousands of Georgian Lari, unless otherwise stated)

3. Material accounting policy information (continued)

Standards issued but not yet effective

New and amended standards and interpretations that are issued but not yet effective are being assessed by the Bank to determine the impact on the financial statements. As explained above, this would include standards and amendments that would already be effective based on the new standard or amendment, but the local endorsement is still in progress or has resulted in a later effective date.

Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7 On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- ▶ A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date;
- ▶ Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed;
- ▶ Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments;
- ▶ The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

With respect to the amendments on the derecognition of financial liabilities that are settled through an electronic payment system, the Bank is currently performing an assessment of all material electronic payment systems utilised in the various jurisdictions it operates, in order to assess whether the amendments will result in a material change with respect to current practices and whether it meets the conditions to apply the accounting policy option to derecognise such financial liabilities before the settlement date. Moreover, the Bank is reviewing all its other payment systems (such as cheques, credit cards, debit cards) to ensure that the corresponding financial assets are derecognised when the right to cash flows are extinguished and that the corresponding financial liabilities are derecognised on settlement date.

In addition, the Bank is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features, as well as on non-recourse financing and contractually linked instruments. Based on the initial assessment performed, the amendments in these areas are not expected to have a material impact on the financial statements, however, the assessment is yet to be concluded.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. There are specific presentation requirements and options for entities, such as Good Bank, that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both).

It also requires disclosure of newly defined management-defined performance measures, which are subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes.

Narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

IFRS 18, and the amendments to the other standards, are effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively.

The Bank is currently working to identify all impacts the amendments will have on the primary financial statements and notes to the financial statements.

(in thousands of Georgian Lari, unless otherwise stated)

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.

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. See also Note 11.

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 several 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 formulas and the choice of inputs;

5. Financial risk review

The following tables present the changes in the credit loss allowance for loans to customers and financial lease receivables, by class (Business, Consumer, Mortgage, and Financial Lease Receivables), as of 31 December 2024 and 31 December 2023, including movements during each respective reporting period:

Expected credit loss allowance

Business loans	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January	4,672	5,226	14,534	24,432	2,927	8,091	14,283	25,301
Transfer to Stage 1	1,693	(845)	(848)	-	3,327	(1,859)	(1,468)	-
Transfer to Stage 2	(87)	2,468	(2,381)	-	(100)	1,258	(1,158)	-
Transfer to Stage 3	(123)	(1,111)	1,234	-	(43)	(609)	652	-
Unwinding	-	-	354	354	-	-	557	557
Net remeasurement of loss allowance	(3,660)	(2,172)	4,228	(1,604)	(4,086)	(2,772)	2,784	(4,074)
New financial assets originated or purchased	4,789	-	-	4,789	5,474	-	-	5,474
Transfer to Stage 2	(1,539)	1,539	-	-	(1,117)	1,117	-	-
Transfer to Stage 3	(945)	-	945	-	(1,710)	-	1,710	-
Write-offs	-	-	(3,777)	(3,777)	-	-	(3,196)	(3,196)
Recoveries of amounts previously written off	-	-	646	646	-	-	370	370
As at 31 December	4,800	5,105	14,935	24,840	4,672	5,226	14,534	24,432

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)**Expected credit loss allowance (continued)**

<i>Consumer loans</i>	<i>2024</i>				<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January	692	383	3,132	4,207	455	278	2,481	3,214
Transfer to Stage 1	261	(29)	(232)	–	229	(57)	(172)	–
Transfer to Stage 2	(7)	45	(38)	–	(6)	161	(155)	–
Transfer to Stage 3	(10)	(61)	71	–	(10)	(56)	66	–
Unwinding	–	–	518	518	–	–	272	272
Net remeasurement of loss allowance	(557)	329	1,554	1,326	(398)	(134)	483	(49)
New financial assets originated or purchased	1,776	–	–	1,776	1,277	–	–	1,277
Transfer to Stage 2	(268)	268	–	–	(191)	191	–	–
Transfer to Stage 3	(887)	–	887	–	(664)	–	664	–
Write-offs	–	–	(1,685)	(1,685)	–	–	(1,916)	(1,916)
Recoveries of amounts previously written off	–	–	563	563	–	–	1,409	1,409
As at 31 December	1,000	935	4,770	6,705	692	383	3,132	4,207

<i>Mortgage loans</i>	<i>2024</i>				<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January	179	236	1,163	1,578	156	151	1,311	1,618
Transfer to Stage 1	46	(36)	(10)	–	82	(82)	–	–
Transfer to Stage 2	(1)	96	(95)	–	(3)	241	(238)	–
Transfer to Stage 3	(1)	(140)	141	–	(1)	(13)	14	–
Unwinding	–	–	–	–	–	–	28	28
Net remeasurement of loss allowance	(114)	(60)	(816)	(990)	(108)	(148)	79	(177)
New financial assets originated or purchased	85	–	–	85	140	–	–	140
Transfer to Stage 2	(7)	7	–	–	(87)	87	–	–
Transfer to Stage 3	(18)	–	18	–	–	–	–	–
Write-offs	–	–	(138)	(138)	–	–	(309)	(309)
Recoveries of amounts previously written off	–	–	68	68	–	–	278	278
As at 31 December	169	103	331	603	179	236	1,163	1,578

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)**Expected credit loss allowance (continued)**

<i>Finance lease receivables</i>	2024				2023			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January	30	-	-	30	-	-	-	-
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	(4)	4	-	-	-	-	-	-
Transfer to Stage 3	(1)	-	1	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-	-	-	-
Repayments through repossessing	(24)	3	32	11	-	-	-	-
New financial assets originated or purchased	95	-	-	95	30	-	-	30
Transfer to Stage 2	(59)	59	-	-	-	-	-	-
Transfer to Stage 3	(15)	-	15	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
As at 31 December	22	66	48	136	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.

	2024					
	<i>Loans to customers at amortized cost – Business loans</i>	<i>Loans to customers at amortized cost – Consumer loans</i>	<i>Loans to customers at amortized cost – Mortgage loans</i>	<i>Loans to customers at amortized cost – Pawn loans</i>	<i>Finance lease receivables</i>	<i>Total</i>
Net remeasurement of loss allowance	(1,604)	1,326	(990)	-	11	(1,257)
New financial assets originated or purchased	4,789	1,776	85	-	95	6,745
Total	3,185	3,102	(905)	-	106	5,488

	2023					
	<i>Loans to customers at amortised cost – Business loans</i>	<i>Loans to customers at amortised cost – Consumer loans</i>	<i>Loans to customers at amortised cost – Mortgage loans</i>	<i>Loans to customers at amortised cost – Pawn loans</i>	<i>Finance lease receivables</i>	<i>Total</i>
Net remeasurement of loss allowance	(4,074)	(49)	(177)	-	-	(4,300)
New financial assets originated or purchased	5,474	1,277	140	-	30	6,921
Total	1,400	1,228	(37)	-	30	2,621

(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.

Business loans	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January	928,003	58,833	35,456	1,022,292	744,231	62,300	36,255	842,786
Transfer to Stage 1	11,733	(9,490)	(2,243)	-	16,873	(13,141)	(3,732)	-
Transfer to Stage 2	(28,853)	33,848	(4,995)	-	(26,573)	31,316	(4,743)	-
Transfer to Stage 3	(21,009)	(9,499)	30,508	-	(10,874)	(7,607)	18,481	-
New financial assets originated or purchased	473,454	-	-	473,454	488,110	-	-	488,110
Transfer to Stage 2	(12,373)	12,373	-	-	(12,454)	12,454	-	-
Transfer to Stage 3	(3,611)	-	3,611	-	(3,908)	-	3,908	-
Repayments and other movements (including foreign currency revaluations)	(347,214)	(24,423)	(12,723)	(384,360)	(267,402)	(26,489)	(12,444)	(306,335)
Unwinding	-	-	354	354	-	-	557	557
Write-offs	-	-	(3,777)	(3,777)	-	-	(3,196)	(3,196)
Recoveries of amounts previously written off	-	-	646	646	-	-	370	370
As at 31 December	1,000,130	61,642	46,837	1,108,609	928,003	58,833	35,456	1,022,292

Consumer loans	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January	137,411	3,413	5,645	146,469	110,441	2,281	4,426	117,148
Transfer to Stage 1	784	(435)	(349)	-	1,354	(699)	(655)	-
Transfer to Stage 2	(2,479)	2,546	(67)	-	(1,723)	2,025	(302)	-
Transfer to Stage 3	(3,081)	(457)	3,538	-	(2,841)	(470)	1,902	(1,409)
New financial assets originated or purchased	93,574	-	-	93,574	87,082	-	-	87,082
Transfer to Stage 2	(1,716)	1,716	-	-	(1,539)	1,539	-	-
Transfer to Stage 3	(1,508)	-	1,508	-	(1,261)	-	1,261	-
Repayments and other movements (including foreign currency revaluations)	(80,080)	(2,573)	(1,972)	(84,625)	(54,102)	(1,263)	(752)	(56,117)
Unwinding	-	-	518	518	-	-	272	272
Write-offs	-	-	(1,685)	(1,685)	-	-	(1,916)	(1,916)
Recoveries of amounts previously written off	-	-	563	563	-	-	1,409	1,409
As at 31 December	142,905	4,210	7,699	154,814	137,411	3,413	5,645	146,469

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)**Expected credit loss allowance (continued)**

	2024				2023			
<i>Mortgage loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January	91,776	5,443	2,176	99,395	91,915	1,838	3,674	97,427
Transfer to Stage 1	925	(899)	(26)	–	1,147	(1,147)	–	–
Transfer to Stage 2	(547)	767	(220)	–	(1,981)	2,872	(891)	–
Transfer to Stage 3	(586)	(3,354)	3,940	–	(725)	(125)	850	–
New financial assets originated or purchased	37,408	–	–	37,408	28,833	–	–	28,833
Transfer to Stage 2	(76)	76	–	–	(2,843)	2,843	–	–
Transfer to Stage 3	(57)	–	57	–	–	–	–	–
Repayments and other movements (including foreign currency revaluations)	(22,740)	(350)	(3,877)	(26,967)	(24,570)	(838)	(1,454)	(26,862)
Unwinding	–	–	–	–	–	–	28	28
Write-offs	–	–	(138)	(138)	–	–	(309)	(309)
Recoveries of amounts previously written off	–	–	68	68	–	–	278	278
As at 31 December	106,103	1,683	1,980	109,766	91,776	5,443	2,176	99,395

	2024				2023			
<i>Pawn loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January	25,646	–	–	25,646	28,409	–	–	28,409
Transfer to Stage 1	–	–	–	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–	–	–	–
New financial assets originated or purchased	14,552	–	–	14,552	1,702	–	–	1,702
Repayments and other movements (including foreign currency revaluations)	(7,514)	–	–	(7,514)	(4,465)	–	–	(4,465)
Write-offs	–	–	–	–	–	–	–	–
As at 31 December	32,684	–	–	32,684	25,646	–	–	25,646

	2024				2023			
<i>Finance lease receivables</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January	14,819	–	–	14,819	–	–	–	–
Transfer to Stage 1	–	–	–	–	–	–	–	–
Transfer to Stage 2	(2,305)	2,305	–	–	–	–	–	–
Transfer to Stage 3	(464)	–	464	–	–	–	–	–
New financial assets originated or purchased	26,076	–	–	26,076	14,819	–	–	14,819
Transfer to Stage 2	(343)	343	–	–	–	–	–	–
Transfer to Stage 3	(117)	–	117	–	–	–	–	–
Repayments and other movements (including foreign currency revaluations)	(6,936)	(986)	(100)	(8,022)	–	–	–	–
Recovery	–	–	–	–	–	–	–	–
Write-offs	–	–	–	–	–	–	–	–
As at 31 December	30,730	1,662	481	32,873	14,819	–	–	14,819

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)

Credit quality analysis

The following table provides information on the credit quality of loans to customers and finance lease receivables as at 31 December 2024 and 31 December 2023:

Loans to customers at amortised cost – Business loans	31 December 2024				31 December 2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Not overdue	975,640	41,715	10,596	1,027,951	891,854	36,906	10,952	939,712
Overdue less than 30 days	24,490	11,270	3,519	39,279	36,149	14,912	3,657	54,718
Overdue 30–90 days	–	8,657	6,699	15,356	–	7,015	4,414	11,429
Overdue more than 90 days	–	–	26,023	26,023	–	–	16,433	16,433
Total business loans, gross	1,000,130	61,642	46,837	1,108,609	928,003	58,833	35,456	1,022,292
Loss allowance	(4,800)	(5,105)	(14,935)	(24,840)	(4,672)	(5,226)	(14,534)	(24,432)
Carrying amount	995,330	56,537	31,902	1,083,769	923,331	53,607	20,922	997,860
Loans to customers at amortised cost – Consumer loans	31 December 2024				31 December 2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Not overdue	138,604	1,505	2,012	142,121	134,984	1,476	970	137,429
Overdue less than 30 days	4,301	857	419	5,577	2,427	446	525	3,398
Overdue 30–90 days	–	1,848	250	2,098	–	1,491	541	2,033
Overdue more than 90 days	–	–	5,018	5,018	–	–	3,609	3,609
Total consumer loans, gross	142,905	4,210	7,699	154,814	137,411	3,413	5,645	146,469
Loss allowance	(1,000)	(935)	(4,770)	(6,705)	(692)	(383)	(3,132)	(4,207)
Carrying amount	141,905	3,275	2,929	148,109	136,719	3,030	2,513	142,262
Loans to customers at amortised cost – Mortgage loans	31 December 2024				31 December 2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Not overdue	105,851	1,217	283	107,351	90,258	3,888	424	94,569
Overdue less than 30 days	252	101	79	432	1,518	896	144	2,559
Overdue 30–90 days	–	365	1,187	1,552	–	659	–	659
Overdue more than 90 days	–	–	431	431	–	–	1,608	1,608
Total mortgage loans, gross	106,103	1,683	1,980	109,766	91,776	5,443	2,176	99,395
Loss allowance	(169)	(103)	(331)	(603)	(179)	(236)	(1,163)	(1,578)
Carrying amount	105,934	1,580	1,649	109,163	91,597	5,207	1,013	97,817
Loans to customers at amortised cost – Pawn loans	31 December 2024				31 December 2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Not overdue	32,684	–	–	32,684	25,646	–	–	25,646
Overdue less than 30 days	–	–	–	–	–	–	–	–
Overdue 30–90 days	–	–	–	–	–	–	–	–
Overdue more than 90 days	–	–	–	–	–	–	–	–
Total pawn loans, gross	32,684	–	–	32,684	25,646	–	–	25,646
Loss allowance	–	–	–	–	–	–	–	–
Carrying amount	32,684	–	–	32,684	25,646	–	–	25,646

(in thousands of Georgian Lari, unless otherwise stated)

5. Financial risk review (continued)**Credit quality analysis (continued)**

<i>Finance lease receivables</i>	31 December 2024				31 December 2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Not overdue	30,515	534	428	31,477	13,196	–	–	13,196
Overdue less than 30 days	215	–	53	268	1,623	–	–	1,623
Overdue 30–90 days	–	1,128	–	1,128	–	–	–	–
Overdue more than 90 days	–	–	–	–	–	–	–	–
Total pawn loans, gross	30,730	1,662	481	32,873	14,819	–	–	14,819
Loss allowance	(22)	(66)	(48)	(136)	(30)	–	–	(30)
Carrying amount	30,708	1,596	433	32,737	14,789	–	–	14,789

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

The contractual amounts outstanding on all loans to customers that have been written off during the reporting period but are still subject to enforcement activity was GEL 4,203 (2023: GEL 4,154).

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.

	2024	2023
Loans modified during the period		
Restructured loans during the period	13,145	8,394
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	4,772	1,344
Restructured Stage 1 Loans Exposure	12,404	11,171

In absence of collateral or other credit enhancements, ECL in respect of individually assessed Stage 3 loans to customers as of 31 December 2024 would have been higher by:

	2024	2023
Business loans	4,117	11,929
Consumer loans	1,931	622
Mortgage loans	235	703
Leasing	433	–
Total ECL	6,716	13,254

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

6. Cash and cash equivalents

	2024	2023
Cash on hand	55,894	41,420
Accounts with the NBG	21,808	19,758
Total current accounts with other credit institutions	26,662	18,240
Time deposits with credit institutions up to 90 days	15,000	–
Total cash and cash equivalents	119,364	79,418

(in thousands of Georgian Lari, unless otherwise stated)

6. Cash and cash equivalents (continued)

Credit rating of current accounts with other credit institutions is as follows:

	2024	2023
rated A- to A+	1,716	241
rated BBB- to BBB+	–	795
rated from BB- to BB+	24,497	16,813
rated from B- to B+	–	90
not rated	449	301
Total current accounts with other credit institutions	26,662	18,240

Credit rating of time deposits with credit institutions up to 90 days is as follows:

	2024	2023
rated BB- to BB+	15,000	–
Total current accounts with other credit institutions	15,000	–

No cash and cash equivalents are past due or impaired. As at 31 December 2024 the Bank had no bank account (2023: one bank account), which balance exceeds 10% of equity. As at 31 December 2024 the Bank allocates cash equivalents under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (31 December 2023: Stage 1). Management estimates that ECL is immaterial at reporting dates.

7. Investment securities

	2024	2023
Investment securities measured at amortized cost		
Corporate securities	135,107	140,986
Government securities of the Ministry of Finance of Georgia	35,141	16,781
Certificates of deposit of the National Bank of Georgia	11,866	–
Total gross carrying value	182,114	157,767
Expected credit losses	(178)	(182)
Total net investment securities	181,936	157,585

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

Investment securities with carrying value of Gel 75,514 (2023: not pledged) are used as collateral for loans from the National Bank of Georgia (Note 13).

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

	31 December 2024		31 December 2023	
	Nominal interest rate, %	Maturity	Nominal interest rate, %	Maturity
Investment securities	7–12	2025–2031	8–14	2025–2028

No investment securities are past due or impaired. As at 31 December 2024 the Bank allocates investment securities under Stage 1 for the purposes of identifying expected credit loss under IFRS 9 (2023: Stage 1).

Movements in the credit loss allowance of investment securities measured at amortized cost for the year ended 31 December 2024 was GEL (21) (2023: GEL 135).

(in thousands of Georgian Lari, unless otherwise stated)

8. Loans to customers and finance lease receivables

	2024	2023
Business loans	1,108,609	1,022,292
Consumer loans	154,814	146,469
Mortgage loans	109,766	99,395
Gold pawn loans	32,684	25,646
Loans to customers, gross	1,405,873	1,293,802
Less: allowance for impairment (Note 5)	(32,148)	(30,217)
Loans to customers, net	1,373,725	1,263,585
Finance lease receivables, gross	32,873	14,819
Less: allowance for impairment (Note 5)	(136)	(30)
Finance lease receivables, net	32,737	14,789
Net loans to customers and finance lease receivables	1,406,462	1,278,374

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:

	2024	2023
Trading and service	567,288	497,813
Construction	352,546	300,987
Individuals	264,581	245,862
Agriculture and food processing	167,481	164,362
Gold pawn	32,684	25,646
Health care	31,707	31,296
Financial institutions	5,248	10,727
Energy	3,557	15,150
Other	13,654	16,778
Gross loans to customers and finance lease Receivables	1,438,746	1,308,621

Loans of GEL 39,213 (2023: None) are pledged under the loans received from the NBG. See Note 13.

(b) Significant credit exposures

As at 31 December 2024 none of the balances of the Bank's borrowers exceeds 10% of equity (2023: none).

As at 31 December 2024, the Bank had a concentration of loans represented by GEL 97,919 due from the ten largest borrowers (2023: GEL 99,764). An allowance of GEL 317 (2023: GEL 258) was recognised against these loans.

(c) Analysis of collateral and other credit enhancements

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

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

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.

(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 (continued)

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:

<i>At 31 December 2024</i>	<i>Net exposures</i>					<i>Total</i>
	<i>Real estate</i>	<i>Cash collateral</i>	<i>Other</i>	<i>No collateral</i>	<i>Precious metals</i>	
Business	985,098	10,944	58,250	29,477	–	1,083,769
Consumer	49,446	9,257	46,906	42,500	–	148,109
Mortgage	108,915	175	73	–	–	109,163
Gold pawn	–	–	9,735	–	22,949	32,684
Leasing	–	–	32,737	–	–	32,737
Total	1,143,459	20,376	147,701	71,977	22,949	1,406,462

<i>At 31 December 2023</i>	<i>Net exposures</i>					<i>Total</i>
	<i>Real estate</i>	<i>Cash collateral</i>	<i>Other</i>	<i>No collateral</i>	<i>Precious metals</i>	
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

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

Reposessed assets mainly represent real estate and gold assets acquired by the Bank in settlement of overdue loans. These assets are treated as inventories, initially recognized at cost and subsequently measured at the lower of cost and net realizable value. The Bank's policy is to sell the reposessed assets as soon as it is practicable.

During 2024, the Bank has an addition of reposessed assets with the value of GEL 23,631 (2023: GEL 6,413) and sales of reposessed assets with the value of GEL 5,253 (2023: GEL 10,728). The Bank incurred GEL 228 gain on sales of the reposessed assets (2023: GEL 3,951 gain).

As of 31 December 2024, the Bank held reposessed collateral with a carrying value of GEL 15,864 (2023: null) that is subject to repurchase agreements with previous owners. Under the terms of these agreements, the previous owners retain the right to repurchase the reposessed assets at prices equal to or exceeding the carrying amount of the related loan at the date of repossession. This repurchase right is typically exercisable within a period ranging from 6 to 24 months from the date of repossession.

(in thousands of Georgian Lari, unless otherwise stated)

9. Premises and equipment

	<i>Land</i>	<i>Premises</i>	<i>Office and computer equipment</i>	<i>Vehicles</i>	<i>Furniture, fixtures and other fixed assets</i>	<i>Leasehold impro- vements</i>	<i>Right of use assets</i>	<i>Total</i>
Cost								
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
As at 1 January 2024	449	19,467	7,708	1,457	16,563	4,577	9,953	60,174
Additions	–	1,489	199	132	3,344	189	1,726	7,079
Disposals	–	(424)	–	(20)	(143)	(6)	(962)	(1,555)
As at 31 December 2024	449	20,532	7,907	1,569	19,764	4,760	10,717	65,698
Accumulated depreciation								
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
As at 1 January 2024	–	5,747	6,998	1,058	11,194	2,983	4,769	32,749
Depreciation charge	–	440	224	144	1,194	423	1,589	4,014
Disposals	–	(161)	–	(4)	(144)	(4)	(617)	(930)
As at 31 December 2024	0	6,025	7,222	1,199	12,245	3,401	5,742	35,834
Net book value								
1 January 2023	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
31 December 2024	449	14,507	685	370	7,519	1,359	4,975	29,864

Fully depreciated assets' book value was GEL 18,102 as at 31 December 2024 and GEL 17,339 as at 31 December 2023.

Future lease payments for each of the next five years for the year ended 31 December 2024 and 2023 are as follows:

	Lease liabilities	
	2024	2023
Within one year	2,412	2,320
Between 1 and 2 years	1,713	2,169
Between 2 and 3 years	936	1,429
Between 3 and 4 years	609	662
Between 4 and 5 years	394	397
	6,064	6,977

10. Goodwill and Other Intangible Assets

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	2024	2023
Discount rate	18.8%	19.6%
Budgeted growth rate of free cash flows (average of next five years)	19.9%	17.3%
Terminal value growth rate	6.0%	5.0%

(in thousands of Georgian Lari, unless otherwise stated)

10. Goodwill and Other Intangible Assets (continued)

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.

The movements in intangible assets, which comprised computer software and licenses, were as follows:

	Software and licenses
Cost	
As at 1 January 2023	29,285
Additions	2,416
Disposals	–
As at 31 December 2023	31,701
As at 1 January 2024	31,701
Additions	8,898
Disposals	(169)
As at 31 December 2024	40,430
Accumulated Amortisation	
As at 1 January 2023	25,276
Amortisation charge	1,570
Disposals	–
As at 31 December 2023	26,846
As at 1 January 2024	26,846
Amortisation charge	2,524
Disposals	(169)
As at 31 December 2024	29,201
Net book value	
1 January 2023	4,009
31 December 2023	4,855
31 December 2024	11,229

To meet high demand for modern IT infrastructure in its operating activities and service offerings, the Bank has invested in growing its own IT development capabilities. The Bank has developed internal processes to reliably capture and capitalize costs associated with internally developed IT solutions in line with IAS 38. As a result the Bank capitalized GEL 5,549 of internally developed software solutions in 2024.

11. Other assets

	2024	2023
Guarantee deposits placed in banks	2,906	2,282
Receivables	3,772	1,203
Financial assets at fair value through profit and loss	157	–
Settlement on plastic card	106	185
Other	193	146
Total other financial assets	7,134	3,816
Prepayments for the purchase of fixed assets	369	785
Other prepayments	2,485	1,313
Total other assets	9,988	5,914

Management estimates that ECL is immaterial as at 31 December 2024 and 2023.

(in thousands of Georgian Lari, unless otherwise stated)

11. Other assets (continued)

The table below shows the fair values of foreign currency forward contracts, recorded as assets or liabilities (31 December 2023: 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 2024		31 December 2023	
	Notional amount	Fair value	Notional amount	Fair value
Foreign currency forward contract				
Sell GEL buy EUR	14,357	378	49,732	(515)
Sell GEL buy USD	10,800	(136)	2,688	(3)
Sell USD buy EUR	26,351	(15)	41,481	(169)
Sell USD buy GEL	5,614	(20)		
Sell CHF buy EUR	9,335	(50)		
	66,457	157	51,508	(687)

12. Taxation

	2024	2023
Current tax expense		
Current year	3,906	6,406
Movement in temporary differences due to origination and reversal of temporary differences	1,422	(1,356)
Total income tax expense	5,328	5,050

The income tax rate applicable to the Bank's income is 20% (2023: 20%). 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

	2024	%	2023	%
Profit before tax	36,167		34,883	
Income tax at the applicable tax rate	7,233	20	6,977	20
Change in unrecognised deferred tax liabilities due to change in the legislation (Note 3)	–	–	43	–
(Non-taxable income) / non-deductible expenses	(2,518)	(5)	(2,417)	(7)
Other non-taxable expenses	613	–	447	1
	5,328	15	5,050	14

(in thousands of Georgian Lari, unless otherwise stated)

12. Taxation (continued)**Reconciliation of effective tax rate (continued)**

Deferred tax assets and liabilities as of 31 December 2024 and 2023 and their movements for the respective years comprise:

	1 January 2023	Recognise d in profit or loss	31 December 2023	Recognise d in profit or loss	31 December 2024
Lease liabilities	1,393	(272)	1,121	(13)	1,108
Reposessed assets	1,036	(299)	737	(378)	359
Subordinated debt	(52)	74	22	16	38
Other assets	11	–	11	–	11
Other liabilities	(117)	135	18	259	277
Deferred tax asset	2,271	(362)	1,909	(116)	1,793
Investment securities	(11)	(77)	(88)	–	(88)
Amounts due to credit institutions	(312)	(45)	(357)	(60)	(417)
Other intangible assets	603	(281)	322	(1,043)	(721)
Right of use assets	(1,336)	300	(1,036)	41	(995)
Premises and equipment	(1,442)	(703)	(2,145)	(244)	(2,389)
Loans to customers	(2,524)	2,524	–	–	–
Deferred tax liabilities	(5,022)	1,718	(3,304)	(1,306)	(4,610)
Deferred tax (liability)/asset	(2,751)	1,356	(1,395)	(1,422)	(2,817)

As at 31 December 2024 the prepaid income tax is GEL 5,511, (31 December 2023: GEL 2,454) income tax liabilities.

13. Loans from financial institutions and lease liabilities

	Currency	Year of maturity	31 December 2024	31 December 2023
Loan from the NBG	GEL	2025	110,342	–
Nederlandse FinancieringsMaatschappij Voor Ontwikkelingslanden N.V. (FMO)	GEL	2026–2028	103,554	109,174
Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	EUR	2025–2029	74,574	27,742
ResponsAbility SICAV (Lux)	EUR	2025–2027	40,964	25,723
European Investment Bank (EIB)	EUR	2029–2030	17,113	17,876
ResponsAbility SICAV (Lux)	USD	2026	14,327	24,386
Black Sea Trade and Development Bank (BSTDB)	USD	2025	14,122	–
Lease liabilities	USD	2025–2033	5,357	5,317
Lease liabilities	GEL	2026–2030	184	287
Total			380,537	210,505

Loans from the NBG with original maturities of less than 3 months are used for liquidity management purposes. As of 2024, these loans are secured by loans to customers amounting to GEL 49,016 (2023: Zero) and by investment securities amounting to GEL 75,514 (2023: Zero). See Note 7 and Note 8.

Loans from international financial institutions are subject to specific terms and conditions, commonly known as “lender covenants.” These covenants typically require the borrower to maintain certain financial ratios and indicators, including minimum thresholds for capital adequacy, liquidity, currency exposure, credit concentration, leverage, cost-to-income ratios, and other key financial metrics. Each lender sets its own covenant criteria and monitoring framework. Compliance with all covenant requirements is reviewed and reported to the respective lenders on a quarterly basis. These obligations are actively managed to ensure full and continuous compliance. As of 31 December 2024 and 31 December 2023, all lender covenants were fully satisfied. As at 31 December 2024, the management assessed the risk of breaching the covenants within next 12 months as remote.

(in thousands of Georgian Lari, unless otherwise stated)

14. Subordinated loans

	<i>Currency</i>	<i>Year of maturity</i>	<i>31 December 2024</i>	<i>31 December 2023</i>
Loan 1	USD	Perpetual	18,946	18,148
Loan 2	USD	Perpetual	18,376	17,608
Loan 3	EUR	2029	17,981	18,251
Loan 4	USD	2029	12,971	12,433
Loan 5	EUR	2027	9,075	9,211
Loan 6	USD	2029	5,615	5,380
Loan 7	USD	2025	3,186	1,856
Loan 8	EUR	2025	1,466	1,488
Loan 9	USD	2025	1,404	1,345
Loan 10	USD	2027	1,404	1,345
Loan 11	USD	2026	1,127	1,621
Loan 12	USD	2029	898	861
Loan 13	USD	2025	855	1,631
Loan 14	USD	2024	–	8,070
			93,304	99,248

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

Loan 1 and Loan 2 denotes additional tier 1 (AT1) instrument with write off feature which is perpetually subordinated and included in the Bank's capital for regulatory purposes, which bears an interest rate of 12%.

Interest rate for Loan 3 is 6.5%. Loan 4 consists of two loans – GEL 6,973 and GEL 5,998 – which bear an interest rates of 6% and 8%, respectively.

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 2024 and 2023.

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.

	<i>Loans from financial institutions</i>	<i>Lease liabilities</i>	<i>Subordinated loans</i>	<i>Total</i>
Balance at 1 January 2024	204,901	5,604	99,248	309,753
Cash flow from financing activities	170,701	(2,007)	(8,423)	160,271
Receipts of loans	212,688	–	1,183	213,871
Repayment of the loans	(41,987)	–	(9,606)	(51,593)
Payment of lease liabilities	–	(2,007)	–	(2,007)
Foreign exchange adjustments	(1,736)	186	2,442	892
Net movement on interest including foreign currency gain/(loss)	1,130	399	28	1,557
Addition	–	1,726	–	1,726
Modification on lease liabilities and subordination loans	–	(367)	9	(358)
Balance at 31 December 2024	374,996	5,541	93,304	473,841

(in thousands of Georgian Lari, unless otherwise stated)

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

	<i>Loans from financial institutions</i>	<i>Lease liabilities</i>	<i>Subordinated loans</i>	<i>Total</i>
Balance at 1 January 2024	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 2024	204,901	5,604	99,248	309,753

16. Deposits and balances from credit institutions

	2024	2023
Time deposits from credit institutions	23	109
Short-term placements of other credit institutions	5,055	10,054
Total deposits and balances from credit institutions	5,078	10,163

Time deposits from banks in 2024 are denominated mostly in GEL.

17. Current accounts and deposits from customers

	2024	2023
Time deposits	967,943	830,285
Current accounts	214,701	269,363
Total current account and deposits from customers	1,182,644	1,099,648
Held as a security against guarantees and letters of credit issued	15,020	8,855

As at 31 December 2024, the Bank has 4 customers (2023: 3 customers), whose balances individually exceed 10% of equity. These balance as at 31 December 2024 equaled GEL 227,863.

Current accounts and deposits from customers include the following types of customers:

	2024	2023
Individuals	530,787	485,352
Private enterprises	326,104	316,797
State and budgetary organizations	325,753	297,499
Total current account and deposits from customers	1,182,644	1,099,648

(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:

	2024	2023
Individuals	530,787	485,354
State organizations	325,753	297,498
Trade and service	162,482	148,040
Construction	71,435	77,308
Insurance	35,414	38,990
Transport and communication	18,429	5,273
Non-banking credit organizations	5,522	17,706
Mining	153	224
Energy	47	86
Other	32,622	29,169
Total current account and deposits from customers	1,182,644	1,099,648

18. Other liabilities

	2024	2023
Accrued employee benefit costs	8,223	5,926
Funds in settlement	3,190	1,078
Financial liabilities from service received	1,031	1,550
Settlement on plastic card and money transfer operations	810	2,409
Provisions for guarantees and credit related commitments	461	909
Financial liabilities from leasing operations	291	306
Financial liabilities at fair value through profit and loss	–	687
Other	90	188
Total other financial liabilities	14,096	13,053
Other provisions	59	59
Other	868	514
Total other liabilities	15,023	13,626

19. Equity

	Ordinary shares	
Number of shares	2024	2023
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 2024 and 2023 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

	2024	2023
Loans to customers and finance lease receivables	171,253	144,289
Investment securities	14,377	16,867
Cash and cash equivalents	3,585	3,408
Total interest income	189,215	164,564
Amounts due to customers	78,215	60,896
Loans from financial institutions and lease liabilities	24,822	31,795
Subordinated debts	9,521	2,661
Total interest expense	112,558	95,352
Net interest income	76,657	69,212

21. Fee and commission income and expenses

	2024	2023
Plastic card transactions	5,166	4,533
Settlement transactions	1,527	1,552
Servicing of current accounts	1,181	1,146
Cash transactions	670	766
Other	258	196
Total fee and commission income from contracts with customers	8,802	8,193
Financial guarantee contracts	1,449	1,371
Total fee and commission income	10,251	9,564
Plastic card transactions	3,711	3,195
Settlement transactions	450	536
Cash transactions	45	74
Other	783	604
Total fee and commission expenses to contracts with customers	4,989	4,409
Financial guarantee contracts	124	59
Total fee and commission expense	5,113	4,468
Net fee and commission income	5,138	5,096

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.	Revenue from account service and servicing fees is recognised over time as the services are provided.
	Fees for ongoing account management are charged to the customer's account on a monthly basis.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	

(in thousands of Georgian Lari, unless otherwise stated)

22. Net gain from foreign exchange transactions

	2024	2023
Net gain from trading in foreign currencies	6,670	3,548
Net (loss)/gain from foreign exchange translation	(255)	78
Net gain from foreign currency forward contracts	1,100	1,693
Total net gain/(loss) from foreign exchange transactions	7,515	5,319

Net gain from foreign currency forward contracts includes GEL 699 (2023: GEL 1,838 negative effect) positive effect due to the difference between spot and pre-agreed forward rates at the settlement date, which is also part of net gain from trading in foreign currencies in cash flow statement.

23. Other operating expenses

	2024	2023
Expenses on other banking operations	4,310	2,821
Professional services	1,235	1,430
Taxes other than on income	1,126	775
Lease Expenses	1,029	981
Advertising and marketing services	892	1,209
Security expense	730	718
Communications	628	604
Utilities	628	603
Transportation and cash collection	599	480
Representative expenses	535	639
Office supply	325	363
Plastic card expenses	229	201
Insurance	223	250
Business trip expenses	199	91
Other	970	706
Total other operating expenses	13,658	11,871

For 2024 and 2023, lease expenses include expenses under low value and short-term lease contracts.

Auditor's remuneration for the audit of the Bank's 2024 financial statements amounts to GEL 226 (2023: GEL 209).

The following table presents average number of employees in 2024 and 2023:

	2024	2023
Top management	5	5
Middle management	51	50
Other permanent staff	601	533
Total permanent staff	657	588
Total temporary staff	58	54
Total	715	642

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.

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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.

	2024	2023
Credit related commitments		
Financial guarantees	50,093	43,343
Total credit related commitments	50,093	43,343
Less: cash held as security against guarantees	(15,020)	(8,855)
Net exposure to guarantees	35,073	34,488
Undrawn loan commitments	59,597	62,442

As at 31 December 2024 the expected credit loss related to the undrawn loan commitments is GEL 585 (31 December 2023: GEL 624).

As at 31 December 2024 the expected credit loss related to the financial guarantees is GEL 356 (31 December 2023: GEL 769).

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 2024, 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.

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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);
- ▶ Due to contamination principle all exposures of a specific borrower are allocated to the highest credit risk stage available for such a borrower as at the reporting date

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)

Credit risk – amounts arising from ECL (continued)

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.

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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.

Geographical risk concentrations

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

	2024				2023			
	Georgia	OECD	Other foreign countries	Total	Georgia	OECD	Other foreign countries	Total
Assets								
Cash and cash equivalents	117,125	1,746	493	119,364	78,140	666	612	79,418
Mandatory reserves with the NBG	143,289	–	–	143,289	99,030	–	–	99,030
Loans to customers and finance lease receivables	1,402,202	1,759	2,501	1,406,462	1,273,781	2,223	2,370	1,278,374
Investment securities	77,961	103,975	–	181,936	47,753	109,832	–	157,585
Other financial assets	7,134	–	–	7,134	3,816	–	–	3,816
	1,747,711	107,480	2,994	1,858,185	1,502,520	112,721	2,982	1,618,223

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)

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 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 and regulatory limits are closely monitored by the ALCO of the Bank. As of 31 December 2024, the bank disclosed the following Liquidity Coverage Ratio (LCR) levels:

	2024	2023
National currency (GEL)	100%	122%
Foreign currency	178%	131%
Total	136%	126%

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 2024 was 124.08%, (2023: 121.40%).

The Bank's liquidity position was strong as of 31 December 2024, 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 2024	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	127,291	71,426	240,220	2,050	440,987
Lease liabilities	464	1,340	3,075	662	5,541
Current accounts and deposits from customers	618,214	434,217	125,958	4,255	1,182,644
Other financial liabilities	14,096	–	–	–	14,096
Subordinated loans	6,610	9,936	86,261	22,184	124,991
Derivative financial assets/liabilities					
Inflow	68,282	–	–	–	68,282
Outflow	(68,125)	–	–	–	(68,125)
Total undiscounted financial liabilities	766,832	516,919	455,514	29,151	1,768,416

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25. Risk management (continued)**Liquidity risk and funding management (continued)**

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	13,053	–	–	–	13,053
Subordinated loans	3,807	15,651	69,985	47,038	136,481
Derivative financial assets/liabilities					
Inflow	94,582	–	–	–	94,582
Outflow	(95,269)	–	–	–	(95,269)
Total undiscounted financial liabilities	650,233	464,718	396,477	60,338	1,571,766

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 2024	77,866	12,892	16,874	2,058	109,690
31 December 2023	72,665	12,444	18,518	2,158	105,785

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

Market risk

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

The Bank manages its market risk by following the 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 2024, the Bank was compliant with all covenants.

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.

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)**Interest rate risk (continued)**

The table below summarizes impact of the 100 basis points interest rate change on the market to the Banks net income:

	2024	2023
Financial assets	1,157,982	987,378
Financial liabilities	(275,731)	(231,202)
Net interest sensitivity position	882,251	756,176
100 basis points increase of market interest rates	8,823	7,562
100 basis points decrease of market interest rates	(8,823)	(7,562)

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 2024 and 2023:

31 December 2024	GEL	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	37,326	18,558	6,645	941	63,470
Mandatory reserves with the NBG	–	118,386	24,903	–	143,289
Loans to customers and finance lease receivables	751,533	421,029	233,900	–	1,406,462
Investment securities	181,936	–	–	–	181,936
Other financial assets	1,256	4,120	1,413	345	7,134
Total assets	972,051	562,093	266,861	1,286	1,802,291
Liabilities					–
Loans from financial institutions and lease liabilities and deposits and balances from banks	219,105	33,846	132,664	–	385,615
Current accounts and deposits from customers	597,600	506,933	67,430	10,681	1,182,644
Subordinated loans	–	64,782	28,522	–	93,304
Other financial liabilities	12,096	325	1,669	6	14,096
Total liabilities	828,801	605,886	230,285	10,687	1,675,659
Net balance sheet position	143,250	(43,793)	36,576	(9,401)	126,632
Effect of derivatives	21,300	20,660	(51,138)	9,335	157
Net position	164,550	(23,133)	(14,562)	(66)	126,789

(in thousands of Georgian Lari, unless otherwise stated)

25. Risk management (continued)**Currency risk (continued)**

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	635,827	405,007	237,540	–	1,278,374
Investment securities	157,585	–	–	–	157,585
Other financial assets	842	1,065	1,869	40	3,816
Total assets	814,116	497,454	264,698	535	1,576,803
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	101,485	(44,852)	88,679	(1,126)	144,186
Effect of derivatives	52,979	38,788	(92,454)	–	(687)
Net position	154,464	(6,064)	(3,775)	(1,126)	143,499

A (weakening)/strengthening of the GEL, as indicated below, against USD at 31 December 2024 and 2023, 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.

	2024	2023
10% weakening of USD against GEL	1,966	515
10% strengthening of USD against GEL	(1,966)	(515)
10% weakening of EUR against GEL	1,238	330
10% strengthening of EUR against GEL	(1,238)	(330)

The following significant exchange rates applied during the year:

In GEL	Average Rate 2024	Average Rate 2023	Reporting Rate Spot 2024	Reporting Rate Spot 2023
USD 1	2.7208	2.6279	2.8068	2.6894
EUR 1	2.9440	2.8416	2.9306	2.9753

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.

(in thousands of Georgian Lari, unless otherwise stated)

26. Fair value measurements (continued)

The estimated fair values of all financial instruments except for disclosed below as at 31 December 2024 and 31 December 2023 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.

	<u>Fair value measurement using</u>			
	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total fair value</u>	<u>Carrying amount</u>
At 31 December 2024				
Assets for which fair values are disclosed				
Cash and cash equivalents	119,364	–	119,364	119,364
Mandatory reserve deposit with the National Bank of Georgia	143,289	–	143,289	143,289
Loans to customers and finance lease receivables	–	1,361,008	1,361,008	1,406,462
Investment securities	182,656	–	182,656	181,936
Derivative financial assets				
Financial assets at fair value through profit and loss	157	–	157	157
Liabilities for which fair values are disclosed				
Subordinated loans	–	101,907	101,907	93,304
Current accounts and deposits with customers	1,141,942	–	1,141,942	1,182,644
Lease liabilities	5,645	–	5,645	5,541
At 31 December 2023				
	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	<u>Total fair value</u>	<u>Carrying amount</u>
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	–	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

(in thousands of Georgian Lari, unless otherwise stated)

26. Fair value measurements (continued)

	Carrying value 2024	Fair value 2024	Unrecognised gain/(loss) 2024	Carrying value 2023	Fair value 2023	Unrecognised gain/(loss) 2023
Financial assets						
Loans to customers and finance lease receivables	1,406,462	1,361,008	(45,454)	1,278,374	1,230,593	(47,781)
Investment securities	181,936	182,656	720	157,585	167,593	10,008
Financial liabilities						
Customer deposits	1,182,644	1,141,942	40,702	1,099,648	1,095,360	4,288
Subordinated loans	93,304	101,907	(8,603)	99,248	103,037	(3,789)
Lease liabilities	5,541	5,645	(104)	5,604	5,789	(185)
Total unrecognised change in fair value			(12,739)			(37,459)

Derivative financial assets/liabilities:

Derivative financial instruments valued using a valuation technique with market observable inputs consist solely of currency swaps. These are measured using present value techniques based on observable market data, such as foreign exchange spot and forward rates, interest rate curves, and the credit quality of counterparties.

Assets and liabilities for which fair value approximates carrying value:

For financial assets and financial liabilities that are liquid or have a short-term maturity (i.e., less than three months), as well as for floating rate instruments, the carrying amounts are assumed to approximate their fair value due to the short-term nature or frequent re-pricing of these instruments.

These include:

- ▶ Cash and cash equivalents
- ▶ Mandatory reserve deposit with the National Bank of Georgia

Assets and liabilities not measured at fair value but for which fair value is disclosed:

Fair values in Level 2 and Level 3 of the fair value hierarchy are estimated using the discounted cash flow valuation technique. Current interest rates for new instruments with similar credit risk, currency, and remaining maturity are used as the discount rate in the valuation model.

These include:

- ▶ Loans to customers and finance lease receivables
- ▶ Investment securities
- ▶ Customer deposits
- ▶ Subordinated loans
- ▶ Lease liabilities

(in thousands of Georgian Lari, unless otherwise stated)

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.

	2024			2023		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	119,364	–	119,364	79,418	–	79,418
Mandatory reserve deposit with the NBG	143,289	–	143,289	99,030	–	99,030
Loans to customers and finance lease receivables	194,021	1,212,441	1,406,462	188,992	1,089,382	1,278,374
Investment securities	47,185	134,751	181,936	–	157,585	157,585
Other financial assets	4,831	2,303	7,134	1,648	2,168	3,816
Total	508,690	1,349,495	1,858,185	369,088	1,249,135	1,618,223
Loans from financial institutions and lease liabilities and deposits and balances from banks	176,191	209,424	385,615	53,950	166,718	220,668
Current accounts and deposits from customers	1,055,089	127,555	1,182,644	985,117	114,531	1,099,648
Subordinated loans	7,334	85,970	93,304	9,795	89,453	99,248
Other financial liabilities	14,096	–	14,096	13,053	–	13,053
Total	1,252,710	422,949	1,675,659	1,061,915	370,702	1,432,617
Net gap	(744,020)	926,546	182,526	(692,827)	878,433	185,606

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 2024, total amounts due to customers amounted to GEL 1,182,644 (2023: GEL 1,099,648). Current accounts and Time Deposits end-of-month balances have not fallen on average below GEL 248,859 (2023: GEL 245,557) and GEL 600,660 (2023: GEL 477,235) 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.

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 2024 and 2023 is as follows:

	2024	2023
Salaries and other benefits	3,627	3,146

As at 31 December 2024 total loans issued are GEL 1,033 (2023: 780) to its key management and supervisory board members.

As at 31 December 2024 interest rates on loans issued to key management personnel and supervisory board members were between 6% and 29% (31 December 2023: 6% and 29%) .

In 2024 interest income accrued on the loans to the key management and supervisory board members is GEL 64 (2023: GEL 17).

As at 31 December 2024 total placed deposits to the key management and supervisory board members are GEL 12,789 (2023: GEL 6,942). Interest rates on deposits were between 0.5% and 12.5%. In 2024 interest expense accrued on the term deposits from the key management is GEL 97 (2023: GEL 64).

(in thousands of Georgian Lari, unless otherwise stated)

28. Related party disclosures (continued)

(c) Transactions with entities under common control

	<i>Interest 2024</i>	<i>Outstanding balance 2024</i>	<i>Interest 2023</i>	<i>Outstanding balance 2023</i>
Subordinated loan from an entity under common control	(1,064)	12,971	(1,352)	20,503
Subordinated loan – AT1 instrument	(4,256)	37,322	(2,715)	35,756
Current accounts and term deposits of entities under common control	97	12,789	74	6,942

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 2024 and 2023.

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, the NBG undertook the project of transferring supervision from Local GAAP to IFRS. Therefore starting from 2023 all regulatory metrics are calculated and adhered to 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.

As at 31 December 2024 and 2023 the ratios were 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 2024 and 31 December 2023:

	<i>2024</i>	<i>2023</i>
Core capital	250,959	226,492
AT 1	36,488	34,962
Supplementary capital	42,440	47,348
Total regulatory capital	329,887	308,802
Risk weighted assets	1,608,766	1,402,761
Minimum total capital adequacy requirements	18.06%	17.90%
Total capital adequacy ratio	20.51%	22.01%
Minimum Tier 1 capital adequacy requirements	14.84%	14.55%
Tier 1 capital adequacy ratio	17.87%	18.64%

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

(in thousands of Georgian Lari, unless otherwise stated)

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

On 26 March 2025 the Bank established a subsidiary, JSC Tera Leasing, with a view of separating its leasing business into a separate entity. At establishment, the Bank contributed GEL 5,500 for 87% share in JSC Tera Leasing, while LTD Bizoni contributed their IT solutions and know-how for a 13% share in the newly formed entity. On 26 March 2025 JSC Tera Leasing acquired from the Bank its leasing portfolio with the net book value of GEL 37, 265 and other assets with the net book value of GEL 1,228 for a consideration of GEL 38,493, with no gain or loss recognized as a result of a transaction.