JSC VTB Bank (Georgia)

Financial statements

For the years ended 31 December 2023 and 31 December 2022
together with independent auditor's report

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Independent Auditor's Report

To the Shareholders and Supervisory Board of JSC VTB Bank (Georgia)

Disclaimer of opinion

We were engaged to audit the financial statements of JSC VTB Bank (Georgia) (hereinafter, the "Bank"), which comprise the statement of financial position as at 31 December 2023 and 2022, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the years then ended, and notes to the financial statements, including a summary of material accounting policies.

We do not express an opinion on the accompanying financial statements of the Bank. Because of the significance of the matter described in the *Basis for disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We draw attention to Note 2 to the financial statements, which describes that the sanctions imposed on the Bank by certain countries following the full-scale invasion of Ukraine by the Russian Federation on 24 February 2022, have negatively impacted on the Bank's operations for the years ended 31 December 2023 and 2022 and after the reporting date. Due to uncertainty regarding the further development of events and timing of their impact, as well as other factors described in Note 2 to the financial statements that are beyond the Bank's control, management has not been able to assess the Bank's ability to continue operations as a going concern. As a result of this matter, we were unable to obtain sufficient appropriate audit evidence on the use of going concern basis of accounting for the preparation of the financial statements.

Due to uncertainties related to imposed sanctions, we were unable to obtain sufficient appropriate audit evidence regarding the estimation of allowance for expected credit losses on loans and advances to customers in accordance with IFRS 9 *Financial Instruments*.

Additionally, we were appointed as auditors of the Bank after 31 December 2023 and thus we did not observe the counting of cash as at 31 December 2023 and 2022, which are stated in the Note 5 to the financial statements at GEL 153,137 thousand and GEL 105,995 thousand, respectively.

Furthermore, we were unable to obtain confirmation letters on loans and advances to customers and amounts due to customers as at 31 December 2023 and 2022, which are stated in Note 6 and Note 15 to the financial statements at GEL 196,526 thousand and GEL 16,976 thousand (2022: GEL 259,238 thousand and GEL 27,548 thousand), respectively. Although, we performed other audit procedures in accordance with International Standards on Auditing, they do not constitute sufficient audit evidence on the completeness and existence assertions to the cash balances, loans and advances to customers and amounts due to customers. As a result of these matters, even after applying alternative audit procedures, we were unable to determine whether any adjustments might have been found necessary in respect of recognized or unrecognized cash and cash equivalents, loans and advances to customers and amounts due to customers, and related elements making up the statement of financial position as at 31 December 2023 and 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the years then ended.

Other matter

The Bank's financial statements for the year ended 31 December 2021 were audited by another auditor, who disclaimed an opinion on 28 September 2023 due to inability to obtain sufficient appropriate audit evidence on the use of going concern basis of accounting.

Other information

Other information includes the annual report. Management is responsible for the annual report. Our opinion on the financial statements does not cover the annual report.

In connection with our audit of the financial statements, our responsibility is to read the annual Report and, in doing so, consider whether the Annual Report is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In our opinion, based on the work performed during the audit:

— As explained in the *Basis for disclaimer of opinion* section of our report, we were unable to determine, whether any adjustments might have been necessary with respect to recognized or unrecognized cash and cash equivalents, loans issued to customers and liabilities due to customers and the related items, which constitute the statement of financial position as at 31 December 2023 and 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the years then ended. Accordingly, based on the work we have performed, we are unable to conclude whether the management report is materially misstated with respect to this matter.

— The information in the Management report satisfies the requirements of Article 7 of the Law of Georgia on Accounting, Reporting and Auditing and relevant normative acts.

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 audit committee is responsible for overseeing the Bank’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Bank’s separate financial statements in accordance with International Standards on Auditing and to issue an auditor’s report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants’ (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Vakhtang Namoradze

"UHY", LLC

Tbilisi, Georgia

24 February 2025

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 audit committee is responsible for overseeing the Bank's financial reporting process.

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Vakhtang Namoradze

"UHY", LLC

Tbilisi, Georgia

24 February 2025

Statement of financial position

As of 31 December

(Thousands of Georgian lari)

	Notes	*2023*	*2022*	*2021*
Assets				
Cash and cash equivalents	5	153,137	105,995	266,925
Amounts due from banks and international financial institutions		114	114	127,189
Trading securities		-	-	9,449
Loans and advances to customers	6	196,526	259,239	1,539,964
Investment securities at amortized cost	7	54	5,533	147,474
Property, plant and equipment	8	34,609	36,061	44,649
Right-of-use assets	9	–	133	5,063
Investment property	10	29,278	29,214	28,400
Deferred tax asset		359	–	200
Other assets	13	38,851	50,076	58,955
Total assets		**452,928**	**486,365**	**2,228,268**
Liabilities				
Amounts due to banks and international financial institutions	14	286	285	38,077
Amounts due to customers	15	16,976	27,548	1,371,822
Debt securities issued	16	–	22	163,062
Other borrowed funds	17	–	3,311	105,600
Current income tax liabilities	11	–	–	4,145
Deferred income tax liabilities	11	–	2,721	–
Other liabilities	13	16,895	22,026	27,047
Subordinated loan	26	97,428	109,509	112,977
Total liabilities		**131,585**	**165,422**	**1,822,730**
Equity				
Share capital	18	209,008	209,008	209,008
Land and buildings revaluation reserve		11,740	11,836	13,203
Perpetual subordinated loan	18	50,857	62,509	70,514
Retained earnings		49,738	37,590	112,813
Total equity		**321,343**	**320,943**	**405,538**
Total liabilities and equity		**452,928**	**486,365**	**2,228,268**

Signed and authorised for issue on behalf of the Board of Directors of the Bank on 24 February 2025:

Archil Kontselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

Statement of financial position

As of December 31

(Thousands of Georgian lari)

	Notes	2023	2022	2021
Assets				
Cash and cash equivalents	5	153,137	105,995	266,925
Amounts due from banks and international financial institutions		114	114	127,189
Trading securities		-	-	9,449
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Archil Kontselidze
Chief Executive Officer

Mamuka Menteshashvili
Chief Financial Officer

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

Statement of profit or loss

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2023*	*2022*	*2021*
Interest revenue calculated using effective interest rate				
Loans and advances to customers		21,615	58,687	169,380
Investment securities		–	3,394	14,511
Cash and cash equivalents		–	944	3,533
		21,615	**63,025**	**187,424**
Other interest revenue		172	168	783
		21,787	**63,193**	**188,207**
Interest expense				
Amounts due to customers		(1,561)	(12,322)	(62,573)
Amounts due to banks, international financial institutions and other borrowed funds		(12)	(5,045)	(13,556)
Subordinated loan		(8,642)	(10,404)	(7,647)
Debt securities issued		(1)	(2,580)	(13,555)
Lease liabilities		(1)	(90)	(333)
		(10,217)	**(30,441)**	**(97,664)**
Expense on assets with negative interest rates (NIR)		–	(117)	(798)
Payments to deposit insurance system		(22)	(161)	(788)
Net interest income		**11,548**	**32,474**	**88,957**
Credit loss expense	12	(6,882)	(549)	(12,121)
Net interest income after credit loss expense		**4,666**	**31,925**	**76,836**
Net fee and commission income	20	51	2,900	7,448
Net gains/(losses) from foreign currencies:				
Dealing		–	(25,900)	18,346
Translation differences		23,992	(24,229)	(5,807)
Net (losses)/recovery of losses on initial recognition of financial instruments, loan restructuring and other losses/gains, and advances to customers		(65)	76	(494)
Net losses from trading investment securities		–	(147)	(260)
Net gains/(losses) from sale of financial instruments	2	751	(41,824)	–
Net gains on investment property revaluation	10	–	52	1,128
Other income	21	2,105	5,935	6,451
Non–interest income		**26,834**	**(83,137)**	**26,812**
Personnel expenses	22	(9,808)	(16,219)	(41,399)
Depreciation	8,9	(1,673)	(2,983)	(6,291)
Other operating costs	22	(22,760)	(12,476)	(19,884)
Reversal of provision for credit related commitments	12	134	543	125
Non–interest expenses		**(34,107)**	**(31,135)**	**(67,449)**
Profit before income tax expense		**(2,607)**	**(82,347)**	**36,199**
Income tax expense	11	3,007	(1,215)	(2,204)
Profit/(loss) for the year		**400**	**(83,562)**	**33,995**

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2023*	*2022*	*2021*
Other comprehensive income reclassified to profit or loss in subsequent periods				
Revaluation of land and buildings	8	–	–	3,773
Income tax effect	11	–	–	(3)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		–	–	**3,770**
Other comprehensive (loss)/income for the period, net of tax		**–**	**–**	**–**
Total comprehensive income/(loss) for the year		**400**	**(83,562)**	**37,765**

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	Share capital	Land and buildings revaluation reserve	Perpetual subordinated loan	Retained earnings	Total equity
As of 31 December 2020		**209,008**	**9,542**	**13,209**	**77,234**	**308,993**
Total comprehensive income for the year		–	3,770	–	33,995	**37,765**
Amounts paid on Perpetual Subordinated Loan (equity)		–	–	58,780	–	**58,780**
Foreign exchange translation on perpetual subordinated loan		–	–	(1,475)	1,475	–
Depreciation of revaluation reserve, net of tax		–	(109)	–	109	–
As of 31 December 2021		**209,008**	**13,203**	**70,514**	**112,813**	**405,538**
Total comprehensive loss for the year		–	-	–	(83,562)	**(83,562)**
Amounts paid on Perpetual Subordinated Loan (equity)		–	–	–	(1,033)	(1,033)
Foreign exchange translation on perpetual subordinated loan		–	–	(8,005)	8,005	–
Depreciation of revaluation reserve, net of tax		–	(1,367)	–	1,367	–
As of 31 December 2022	18	**209,008**	**11,836**	**62,509**	**37,590**	**320,943**
Total comprehensive income for the year		–	–	–	400	**400**
Issuance of Perpetual Subordinated Loan (equity)		–	–	–	–	–
Foreign exchange translation on perpetual subordinated loan		–	–	(11,652)	11,652	–
Depreciation of revaluation reserve, net of tax		–	(96)	–	96	–
As of 31 December 2023	18	**209,008**	**11,740**	**50,857**	**49,738**	**321,343**

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(Thousands of Georgian lari)

	Notes	*2023*	*2022*	*2021*
Cash flows from operating activities				
Interest received		14,666	74,640	188,663
Interest paid		(3,542)	(43,354)	(93,974)
Fees and commissions received		1,099	2,988	17,220
Fees and commissions paid		(760)	(1,120)	(10,429)
Realised net gains from dealings in foreign currencies		-	(26,714)	18,448
Other income received		1,998	2,771	5,455
Personnel expenses		(9,794)	(25,959)	(41,564)
Other operating expenses paid		(4,517)	(11,808)	(17,430)
Cash flows from operating activities before changes in operating assets and liabilities		**(850)**	**(28,556)**	**66,389**
Net (increase)/decrease in operating assets				
Amounts due from banks and international financial institutions		-	126,267	100,504
Loans and advances to customers		64,162	1,203,624	(194,255)
Other assets		(3,381)	(1,160)	2,343
Net increase/(decrease) in operating liabilities				
Amounts due to banks and international financial institutions		-	(38,012)	7,235
Amounts due to customers		(10,240)	(1,342,682)	61,786
Debt securities issued		(50)	(151,681)	(4,902)
Other liabilities		(3,693)	12,773	(4,051)
Net cash flows from / (used in) operating activities before income tax		**45,949**	**(219,427)**	**35,049**
Cash flows from investing activities				
Acquisition of investment securities		-	-	(89,104)
Proceeds from sale of investment securities		-	151,390	97,221
Purchase of property and equipment and intangible assets		(107)	(1,059)	(6,850)
Proceeds from sale of property and equipment		17	13,725	25
Proceeds from disposal of investment property		1,033	3,355	1,756
Purchase of investment property		(346)	(2,036)	-
Net cash flows from investing activities		**597**	**165,375**	**3,048**
Cash flows from financing activities				
Other borrowed funds received		-	842,304	4,223,550
Repayments of other borrowed funds		-	(944,593)	(4,294,103)
Proceeds from Subordinated loan		-	-	37,787
Proceeds from/(Interest paid on) perpetual subordinated loan		-	(1,033)	58,780
Repayment of lease liabilities	9	(26)	(1,159)	(2,177)
Net cash (paid in) / received from financing activities		**(26)**	**(104,481)**	**23,837**
Effect of exchange rate changes on cash and cash equivalents		622	(2,397)	(2,112)
Net change in cash and cash equivalents		**47,142**	**(160,930)**	**59,822**
Cash and cash equivalents at the beginning of the year	5	105,995	266,925	207,103
Cash and cash equivalents at the end of the year	5	**153,137**	**105,995**	**266,925**

The accompanying selected explanatory notes on pages 11 to 82 are an integral part of these financial statements.

(Thousands of Georgian Lari)

1. Introduction

JSC VTB Bank (Georgia) (hereafter the "Bank") was formed as a joint stock company on 7 April 1995 under the laws of Georgia under the name of United Georgian Bank. Tbilisi Chugureti District Court gave the Bank registration number 202906427. The Bank changed its name to VTB Bank (Georgia) on 7 December 2006. The Bank operates under a general banking license issued by the National Bank of Georgia (the "NBG") on 19 May 1995.

The Bank accepted deposits from the public, extended credit, transferred payments in Georgia and abroad, exchanged currencies and provided other banking services to its corporate and retail customers until 24 February 2022. Its main office is in Tbilisi, Georgia. The Bank's headquarters are located in Tbilisi, Georgia. As of 31 December 2023 the Bank had 1 branch in Tbilisi (2022: one branch in Tbilisi; as of 31 December 2021, the Bank had 17 branches (7 of which in Tbilisi) and 9 service centers). Since 24 February 2022, the Bank's activities have been restricted due to sanctions.

The Bank's registered legal address is 14, Chanturia str., Tbilisi, Georgia.

As of 31 December 2023, 2022 and 2021, the following shareholders owned more than 1% of the outstanding shares:

Partner	*2023, %*	*2022, %*	*2021, %*
VTB Bank OJSC	97.38	97.38	97.38
Lacarpa Enterprises Limited“	1.47	1.47	1.47
Other	1.14	1.14	1.14
Total	**100.00**	**100.00**	**100.00**

VTB Bank OJSC ("the Parent Bank") is the immediate parent of the Bank. The ultimate controlling party for the Group is the Government of the Russian Federation ("RF"), acting through the Federal Property Agency, which holds 60.93% of issued and outstanding shares of the Parent Bank as of 31 December 2023 (2022 and 2021: 60.93%).

As of 31 December 2023, 2022 and 2021 none of the members of the Supervisory Board and the Board of Directors owned any shares of the Bank.

As of 31 December 2023, the Bank had 88 employees (2022: 178 employees; 2021: 860 employees).

As of 31 December 2023, 2022 and 2021 the Bank had an average number of employees as given below:

Average number of employees	*2023*	*2022*	*2021*
Key management personnel	6	6	6
Other	178	417	993
Total	**184**	**423**	**999**
Including			
Permanent contract	152	370	994
Temporary contract	32	53	5
Total	**184**	**423**	**999**

As at 31 December 2023, 2022 and 2021, the Bank does not have any subsidiaries.

(Thousands of Georgian Lari)

2. Basis of preparation, going concern

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for land and buildings, investment property, derivative financial instruments and equity investment securities carried at fair value.

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated. GEL is the functional currency of the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Following the full-scale military invasion of Ukraine by Russian Federation on 24 February 2022, several western countries such as the United States, the United Kingdom and the European Union imposed sanctions on the Russian Federation. These sanctions included, among other measures, freezing certain Russian banks' (including those of the Parent Bank) assets, prohibiting these and other banks from conducting U.S. dollar denominated transactions (including exclusion of the Bank and the Parent Bank from the SWIFT network), restricting certain major Russian companies and Russian government from raising funds in the U.K., U.S. and E.U. markets, halting plastic card transactions by VISA and MasterCard, and limiting Russia's access to high-end technologies. As a result, since February 2022 there has been a significant increase in volatility on the securities and currency markets, as well as a significant volatility of the Russian ruble against the U.S. dollar and the Euro. These events affected the activities of Russian enterprises in various sectors of the economy and countries. As a subsidiary of VTB Bank OJSC (the Parent bank), JSC VTB Bank (Georgia) was included in the list of sanctioned companies and as such, was banned from using SWIFT, VISA and MasterCard services, significantly restricting its ability to conduct normal business operations. Additionally, the National Bank of Georgia (NBG) closed the Bank's correspondent accounts in Georgian Lari (thus restricting the Bank's ability to settle transactions in Georgian Lari) and imposed limitations on settlement of liabilities with the Parent Bank, dispose of repossessed property to third parties or conducting any other non-cash settlements. Cash settlements are limited to the Bank's daily operating activities only.

Under these conditions, protecting the rights of the Bank's customers was the primary objective of the Bank. To achieve this, the Bank entered an agreement with JSC Basisbank in 2022, transferring part of its retail and corporate business lines with carrying values of GEL 665,148 and GEL 755,688, respectively at the date of transaction (represented by the amounts due to customers and loans and advances to customers and with carrying values of GEL 544,830 and GEL 695,991, respectively as at 31 December 2021). As part of this transaction, JSC BasisBank also acquired certain leased and owned properties from the Bank and hired the majority of the its retail officers. JSC Basisbank paid a cash consideration of GEL 13,286, resulting a loss of GEL 27,253 for the Bank.

Additionally, during 2022, the Bank sold part of the small and medium business (SMB) portfolio to JSC Liberty Bank. Under the agreement, amounts due to SMB customers of and SMB loan portfolio with carrying values of GEL 303,853 and GEL 316,373, respectively at the date of transaction (with carrying values of GEL 515,578 and GEL 277,736, respectively as at 31 December 2021) were transferred to JSC Liberty Bank. As part of SMB transaction, the Bank paid GEL 2,051 cash consideration to JSC Liberty Bank, resulting a loss of GEL 14,571.

In total, the Bank incurred a loss of GEL 41,824 from the sale of these portfolios.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Furthermore, during the year 2022, the Bank's corporate customers repaid loans and withdrew deposits in the amount of GEL 255,696 and GEL 218,237, respectively. These transactions occurred either at the discretion of customers or at the Bank's initiative.

The total financial assets and liabilities derecognized as a result of these transactions amounted to GEL 1,072,061 and GEL 969,001 respectively, representing 48% and 53%, respectively, of the Bank's total assets and liabilities as at 31 December 2021.

In accordance with applicable sanctions, the Bank suspended settlements of its liabilities to the Parent Bank. As at 31 December 2021, the Bank has an outstanding liability of GEL 116,938 to the Parent Bank in respect of subordinated loans and derivative transactions.

As of the date of approval of these financial statements, the Bank maintains its general banking license. The Bank continues its operations on a significantly reduced scale and serving a limited number of corporate customers. The Bank maintains regular communications with the NB and does not anticipate the revocation of its license or introduction of temporary administration. As of the date of issuance of these financial statements, the Bank complies with the prudential ratios (based on unaudited regulatory reporting), except for open currency position ratio which is communicated to the NBG. The NBG monitors whether the Bank's cash level is sufficient to serve the outstanding deposit portfolio. The operations of the Bank are limited by the NBG to cash settlements only, including collection of outstanding loans to customers, withdrawal of deposits and settlement of administrative expenses necessary for Bank's day-to-day operations.

The financial statements have been prepared based on the assumption that the Bank will continue as a going concern in the foreseeable future and will be able to manage its assets under the current restrictions, in compliance with all required regulations and standards, as has been the case in the past. As described above, the Bank has been subject to sanctions since February 2022, significantly restricing the Bank's ability to conduct financial operations. Given these sanctions and the potential future impact, that is beyond the Bank's control, management concluded that a material uncertainty exists regarding the Bank's ability to continue as a going concern. It should be noted that the Bank has sufficient financial assets to cover its current liabilities.

2.1 Significant accounting policies

Financial assets

Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. The Bank determines the classification of its financial assets upon initial recognition and subsequently can reclassify financial assets in certain cases as described below.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms are measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

The bank classifies and measures its derivative instruments and trade portfolio at fair value through profit or loss. The bank may measure financial instruments at fair value through profit or loss if this eliminates or significantly reduces the inconsistency in measurement or recognition.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at fair value through profit or loss if they are held for trading, are derivative instruments or fair value determination is used.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Bank only measures amount due from credit institutions, loans to customers and other financial instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument–by–instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purposes of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument–by–instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued)

Fair value measurement

The Bank measures financial instruments at FVPL or at FVOCI, and non–financial assets, such as investment property and land and buildings - at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The measurement of the fair value of an asset or liability is based on the assumption that market participants act in their best economic interests when pricing the asset or liability. A fair value measurement of a non–financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re–assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBG, excluding obligatory reserves, and amounts due from banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into certain derivative financial instruments contracts primarily including foreign exchange forwards and swaps. Such financial instruments are recorded at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in net gains/(losses) from foreign currency dealing in the statement of profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to banks and international financial institutions, amounts due to customers, other borrowed funds and subordinated loans. These are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

Amounts due to banks and international financial institutions represent funds attracted to manage the Bank's liquidity, while other borrowed funds comprise funds received for general capital working purposes and under basic agreements with international credit institutions to finance activities of the Bank's customers.

Leases

(i) Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short–term leases and leases of low–value assets. The Bank recognises lease liabilities to make lease payments and to reimburse right–of–use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right–of–use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right–of–use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right–of–use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right–of–use assets are depreciated on a straight–line basis over the shorter of its estimated useful life and the lease term. Right–of–use assets are subject to impairment.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in–substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing interest rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in–substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short–term leases and leases of low–value assets

The Bank applies the short–term lease recognition exemption to its short–term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low–value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short–term leases and leases of low–value assets are recognised as expense on a straight–line basis over the lease term.

(ii) Operating lease – Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight–line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(iii) Finance lease – Bank as a lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, provided that an impairment loss has already been recognised. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit–impaired. Once an asset has been classified as credit–impaired as a result of modification, it will remain in Stage 3 for a minimum 3–month probation period. In order for such a restructured loan to be reclassified out of Stage 3 to Stage 2, regular payments of principal or interest have been made during the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass–through" arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash–settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash–settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Non-performing loans

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write–off constitutes a derecognition event.

According to the Bank's policy, non–performing loans are derecognized as follows:

- Individually significant loans are being written off based on respective decision of the Bank's Credit committee;
- Bad loans are written–off against the related allowance for impairment after all necessary procedures to recover the loans have been completed and the amount of the irretrievable loss has been determined.

In case the Bank receives any amounts from the borrower after the loan is written off, respective amounts are recognized within allowance for loan impairment as recoveries.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statements of comprehensive income, with the difference in the respective carrying amount being recognized in profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set–off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre–specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Taxation

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates (applicable to retained earnings) and tax laws that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property, plant and equipment

Property and equipment, except for land and buildings, are carried at cost, excluding costs of day–to–day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation. Land is measured at fair value and not depreciated. Valuations are performed regularly to ensure that the fair value of a revalued property does not differ materially from its carrying amount. Last valuation of the Bank's property was made as of 31 December 2021. Additional details are provided in Note 8.

Any revaluation surplus is credited to the revaluation reserve for land and buildings included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognised in the statement of profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Property, plant and equipment (continued)

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to office premises or other premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight–line basis over the following estimated useful lives:

	Years
Buildings	30–50
Utility systems and related features	10–40
Computers and communication equipment	4–15
Furniture, fixtures and office equipment	3–6
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

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

Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Bank or held for sale in the ordinary course of business.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Revaluation of investment property is performed on each reporting date and recognised in the statement of profit or loss as gains/losses on investment property revaluation. Rental income earned is recorded in the statement of profit or loss within rental income.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Repossessed assets

Repossessed collateral represents non–financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently re–measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed collateral are recorded at the lower of cost or net realisable value.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 2 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Bank does not have any intangible assets with indefinite useful lives.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid–in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Perpetual subordinated loan

Due to undefined maturity and an option for non–cumulative cancellation of coupon payments, the Bank accounts the Perpetual Subordinated Loan as an equity instrument and as a Tier I eligible instrument for the purpose of capital adequacy ratio calculation. The Bank accounts for the Perpetual Subordinated Loan denominated in the RUB in the amount equivalent of GEL, using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest, revenue and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost by applying the EIR to the gross carrying amount of financial assets other than credit–impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the

financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit–impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit–impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit–impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit–adjusted EIR and applying that rate to the amortised cost of the asset. The credit–adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees, including fee on guarantees and letters of credit issued, are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income

Revenue is recognized when the Bank’s right to receive the payment is established.

(Thousands of Georgian Lari)

2. Basis of preparation and significant accounting policies (continued)

Foreign currency transaction

The financial statements are presented in Georgian Lari, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of profit or loss as gains less losses from foreign currencies – translation differences. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealings in foreign currencies. The official NBG exchange rates at 31 December 2023, 31 December 2022 and 31 December 2021 were GEL 2.6894, GEL 2.7020 and GEL 3,0976 to 1 USD, respectively.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying values of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

The financial statements have been prepared based on the assumption that the Bank will continue as a going concern and sell its assets and discharge its liabilities in the ordinary course of business. However, as described in Note 2, the Bank has been subject to sanctions since February 2022, significantly restricting the Bank's ability to conduct financial operations. Given these sanctions and the potential future impact, that is beyond Bank's control, management concluded that, a material uncertainty exists regarding the Bank's ability to continue as a going concern and it is impossible to determine whether the going concern basis of accounting is appropriate for the preparation of these financial statements.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 24.

(Thousands of Georgian Lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values 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. In addition, large–scale business disruptions may give rise to liquidity issues for some entities and consumers.

Deterioration in credit quality of loan portfolios (amongst other items) as a result of the COVID–19 pandemic may have a significant impact on the Bank's ECL measurement.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interpretations. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Incorporation of forward–looking information by establishing multiple macroeconomic scenarios, determining the probability of their occurrence and assessing the effect of the changes in observable macroeconomic factors on ECLs;
- Development of ECL models, including the various formulas and the choice of inputs.

The Bank has a three–stage expected credit loss impairment model. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3).

The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12–month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Stage 3: objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised; and
- Purchased or originated credit impaired ('POCI'): purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

(Thousands of Georgian Lari)

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Impairment losses on financial assets (continued)

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward–looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years.

The assessment of credit risk and the estimation of ECL are unbiased and probability–weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, Bank calculates ECL using three main components: a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12–month ECL is calculated by multiplying the 12–month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12–month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

Revaluation of property

The Bank regularly reviews the valuation of its property (land, office buildings, and investment property) and performs revaluation to ensure that the current carrying value of property does not materially differ from its fair value. The Bank performs revaluation using special valuation techniques and information about real estate transactions entered into on the local market.

Land and buildings have been revalued to market value at 31 December 2021. Revalued buildings are recognized based on their remaining useful lives since 1 January 2022. Investment properties have been revalued as at 31 December 2021. As of 31 December 2021, an independent appraiser determined the fair value of the Bank's property. The market value of the property was determined based on market data.

Leases – estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right–of–use asset and to repay a loan with a similar term and with a similar security, in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. Please refer to Note 9.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity–specific estimates.

(Thousands of Georgian Lari)

4. New accounting pronouncements

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

Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IAS 1	Classification of liabilities as non-current or current liabilities
Amendments to IAS 1	Non-current liabilities with covenants
Amendments to IAS 7 and IFRS 7	Changes in financial transactions with providers
Amendments to IFRS 16	Lease liability in a sale and leaseback

The management does not expect that the adoption of the above new standards shall have a material impact on the Bank's financial statements in future periods.

5. Cash and cash equivalents

	2023	*2022*	*2021*
Cash on hand	146,554	99,715	61,467
Current accounts with credit institutions	6,583	6,280	44,485
Current accounts with the NBG	–	–	160,973
Cash and cash equivalents	**153,137**	**105,995**	**266,925**

As of 31 December 2023, and 2022, current accounts with credit institutions are placed with non-resident credit institutions. As of 31 December 2021, 77.69% of total current accounts with credit institutions are placed with two non–resident credit institutions.

All balances of cash equivalents are allocated to Stage 1; there were no significant movements in ECL during the year.

6. Loans and advances to customers

	2023	*2022*	*2021*
Consumer lending	9,660	11,834	626,408
Corporate lending	196,761	244,339	666,598
Small business lending	3,990	10,084	282,108
Loans to individuals secured by deposits	-	-	5,873
Loans and advances to customers - gross	**210,411**	**266,257**	**1,580,987**
Less: allowance for impairment	(13,885)	(7,018)	(41,023)
Loans and advances to customers, net	**196,526**	**259,239**	**1,539,964**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the years ended 31 December 2023, 2022 and 2021 are as follows:

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	**164,548**	**31,511**	**48,278**	**244,337**
Repaid or sold assets	(43,811)	-	(4,104)	**(47,915)**
Transfers to Stage 1	6,671	(6,671)	-	-
Transfers to Stage 2	(40,140)	43,061	(2,921)	-
Transfers to Stage 3	(8,164)	-	8,164	-
Change due to modification of contractual cash flows	(16)	(45)	-	**(61)**
Foreign exchange adjustments	(732)	1,283	(151)	**400**
as at 31 December 2023	**78,356**	**69,139**	**49,266**	**196,761**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	(110)	135	(6,679)	**(6,654)**
Repaid or sold assets	28	2	-	**30**
Transfers to Stage 1	(4)	4	-	-
Transfers to Stage 2	30	2,081	(2,111)	-
Transfers to Stage 3	1,171	-	(1,171)	-
Foreign exchange adjustments	(1)	-	(44)	**(45)**
Other net changes to models and inputs used for ECL calculations	(1,429)	(2,215)	(2,676)	**(6,320)**
as at 31 December 2023	**(315)**	**7**	**(12,681)**	**(12,989)**

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2022	**627,531**	**23,946**	**15,121**	**666,598**
New assets originated or purchased	66,311	-	-	**66,311**
repaid or sold assets	(462,579)	(14,156)	-	**(476,735)**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(16,621)	16,621	-	-
Transfers to Stage 3	(35,706)	8,311	27,395	-
Change due to modification of contractual cash flows	(53)	-	(2)	**(55)**
Amounts written off	-	-	(4,283)	**(4,283)**
Foreign exchange adjustments	(14,333)	(3,211)	10,047	**(7,497)**
as at 31 December 2022	**164,550**	**31,511**	**48,278**	**244,339**

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2022	**(7,474)**	**(672)**	**(4,219)**	(12,365)
New assets originated or purchased	(477)	-	-	**(477)**
repaid or sold assets	7,424	668	2,738	**10,830**
Transfers to Stage 1	–	–	-	–
Transfers to Stage 2	12	(12)	-	–
Transfers to Stage 3	3,202	-	(3,202)	–
Amounts written off	–	–	4,283	**4,283**
Foreign exchange adjustments	(5)	(2)	(481)	**(488)**
Other net changes to models and inputs used for ECL calculations	(2,792)	153	(5,798)	**(8,437)**
as at 31 December 2022	**(110)**	**135**	**(6,679)**	(6,654)

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2021	**525,281**	**31,054**	**12,710**	**569,045**
New assets originated or purchased	584,096	–	–	**584,096**
repaid or sold assets	(429,084)	(25,389)	(1,910)	**(456,383)**
Transfers to Stage 1	59,038	(47,042)	(11,996)	–
Transfers to Stage 2	(76,671)	76,671	–	–
Transfers to Stage 3	(7,238)	(8,973)	16,211	–
Unwinding of discount	–	–	166	**166**
Change due to modification of contractual cash flows	–	(54)	16	**(38)**
Recoveries	–	–	649	**649**
Foreign exchange adjustments	(27,892)	(2,320)	(725)	**(30,937)**
as at 31 December 2021	**627,530**	**23,947**	**15,121**	**666,598**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Corporate lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2021	**(4,758)**	**(1,035)**	**(2,698)**	**(8,491)**
New assets originated or purchased	(4,338)	–	–	**(4,338)**
repaid or sold assets	1,773	554	(441)	**1,886**
Transfers to Stage 1	(4,670)	3,140	2,434	**904**
Transfers to Stage 2	2,746	(2,746)	–	**–**
Transfers to Stage 3	84	262	(347)	**(1)**
Impact on period end ECL of credit exposures transferred between stages during the period	–	2	1	**3**
Unwinding of discount (recognised in interest revenue)	–	–	(166)	**(166)**
Changes to models and inputs used for ECL calculations	1,451	(948)	(2,507)	**(2,004)**
Recoveries	–	–	(649)	**(649)**
Foreign exchange adjustments	238	99	154	**491**
as at 31 December 2021	**(7,474)**	**(672)**	**(4,219)**	**(12,365)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to small business lending during the year ended 31 December 2023, 2022 and 2021 are as follows:

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	**7,992**	**2,092**	**-**	**10,084**
Repaid or sold assets	(4,086)	(1,880)	-	**(5,966)**
Transfers to Stage 1	(3,902)	10	3,892	**-**
Amounts written off	–	–	(128)	**(128)**
as at 31 December 2023	**4**	**222**	**3,764**	**3,990**

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	**(5)**	**(43)**	**-**	**(48)**
Repaid or sold assets	(480)	30	(211)	**(661)**
Transfers to Stage 1	498	-	(498)	**-**
Transfers to Stage 2	(13)	13	-	**-**
Amounts written off	–	–	128	**128**
as at 31 December 2023	–	–	**(581)**	**(581)**

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2022	**271,144**	**9,252**	**1,712**	**282,108**
New assets originated or purchased	6,215	-	-	**6,215**
Repaid or sold assets	(270,347)	(9,252)	(1,712)	**(281,311)**
Transfers to Stage 2	(2,092)	2,092	-	**-**
Amounts written off	–	–	(364)	**(364)**
Other net changes	3,072	-	364	**3,436**
as at 31 December 2022	**7,992**	**2,092**	**-**	**10,084**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2022	**(493)**	**(50)**	**(244)**	**(787)**
New assets originated or purchased	(2)	-	-	**(2)**
Repaid or sold assets	492	50	244	**786**
Transfers to Stage 2	43	(43)	-	-
Amounts written off	–	–	364	**364**
Other net changes to models and inputs used for ECL calculations	(45)	-	(364)	**(409)**
as at 31 December 2022	**(5)**	**(43)**	**–**	**(48)**

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2021	**219,752**	**16,809**	**2,870**	**239,431**
New assets originated or purchased	214,813	–	–	**214,813**
Repaid assets	(156,586)	(4,094)	(2,487)	**(163,167)**
Transfers to Stage 1	4,858	(2,904)	(1,954)	**–**
Transfers to Stage 2	(3,407)	3,505	(98)	**–**
Transfers to Stage 3	(3)	(3,328)	3,331	**–**
Unwinding of discount	–	–	43	**43**
Change due to modification of contractual cash flows	–	(33)	5	**(28)**
Recoveries	–	–	336	**336**
Amounts written off	–	–	(220)	**(220)**
Foreign exchange adjustments	(8,283)	(703)	(114)	**(9,100)**
as at 31 December 2021	**271,144**	**9,252**	**1,712**	**282,108**

Small business lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2021	**(271)**	**(143)**	**(451)**	**(865)**
New assets originated or purchased	(296)	–	–	**(296)**
Repaid assets	260	54	491	**805**
Transfers to Stage 1	(309)	29	279	**(1)**
Transfers to Stage 2	24	(54)	16	**(14)**
Transfers to Stage 3	–	136	(136)	**–**
Unwinding of discount (recognised in interest revenue)	–	–	(43)	**(43)**
Changes to models and inputs used for ECL calculations	85	(78)	(305)	**(298)**
Recoveries	–	–	(336)	**(336)**
Amounts written off	–	–	220	**220**
Foreign exchange adjustments	14	6	21	**41**
as at 31 December 2021	**(493)**	**(50)**	**(244)**	**(787)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to consumer lending during the year ended 31 December 2023, 2022 and 2021 are as follows:

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2023	**11,154**	**380**	**300**	**11,834**
Repaid or sold assets	(2,264)	142	267	**(1,855)**
Transfers to Stage 1	(653)	306	347	-
Transfers to Stage 2	112	(198)	86	-
Transfers to Stage 3	426	-	(426)	-
Amounts written off	–	(285)	(34)	**(319)**
as at 31 December 2023	**8,775**	**345**	**540**	**9,660**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2023	**(48)**	**(20)**	**(248)**	**(316)**
New assets originated or purchased	-	-	-	**-**
Repaid or sold assets	22	99	(254)	**(133)**
Transfers to Stage 1	(0)	(85)	85	**-**
Transfers to Stage 2	(1)	-	1	**-**
Amounts written off	–	–	34	**34**
as at 31 December 2023	**(27)**	**(6)**	**(382)**	**(415)**

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2022	**575,190**	**26,456**	**24,762**	**626,408**
New assets originated or purchased	368	-	-	**368**
Repaid or sold assets	(564,104)	(26,156)	(23,751)	**(614,011)**
Transfers to Stage 1	(300)	158	142	**-**
Transfers to Stage 2	-	(78)	78	**-**
Amounts written off	–	–	(931)	**(931)**
as at 31 December 2022	**11,154**	**380**	**300**	**11,834**

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
ECL as at 1 January 2022	**(5,185)**	**(2,039)**	**(20,647)**	**(27,871)**
New assets originated or purchased	(70)	-	-	**(70)**
Repaid or sold assets	5,369	2,078	19,247	**26,694**
Transfers to Stage 1	(162)	20	142	**-**
Transfers to Stage 2	-	(79)	79	**-**
Amounts written off	–	–	931	**931**
as at 31 December 2022	**(48)**	**(20)**	(248)	**(316)**

Consumer lending	Stage 1	Stage 2	Stage 3	*Total*
Gross carrying value as at 1 January 2021	**578,217**	**21,502**	**25,582**	**625,301**
New assets originated or purchased	310,524	–	–	**310,524**
Repaid assets	(276,202)	(5,686)	(4,887)	**(286,775)**
Transfers to Stage 1	28,440	(24,343)	(4,098)	**(1)**
Transfers to Stage 2	(53,692)	56,375	(2,681)	**2**
Transfers to Stage 3	(267)	(20,622)	20,889	**–**
Unwinding of discount	–	–	668	**668**
Change due to modification of contractual cash flows	–	(431)	4	**(427)**
Recoveries	–	–	1,426	**1,426**
Amounts written off	–	–	(12,067)	**(12,067)**
Foreign exchange adjustments	(11,830)	(339)	(74)	**(12,243)**
as at 31 December 2021	**575,190**	**26,456**	**24,762**	**626,408**

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Consumer lending	**Stage 1**	**Stage 2**	**Stage 3**	***Total***
ECL as at 1 January 2021	**(5,246)**	**(1,506)**	**(22,297)**	**(29,049)**
New assets originated or purchased	(3,808)	–	–	**(3,808)**
Repaid assets	3,893	603	13,883	**18,379**
Transfers to Stage 1	(3,858)	2,374	1,485	**1**
Transfers to Stage 2	2,856	(4,190)	1,333	**(1)**
Transfers to Stage 3	11	6,901	(6,912)	**–**
Impact on period end ECL of credit exposures transferred between stages during the period	–	–	–	**–**
Unwinding of discount (recognised in interest revenue)	–	–	(668)	**(668)**
Changes to models and inputs used for ECL calculations	941	(6,228)	(18,125)	**(23,412)**
Change due to modification of contractual cash flows	–	3	(6)	**(3)**
Recoveries	–	–	(1,426)	**(1,426)**
Amounts written off	–	–	12,067	**12,067**
Foreign exchange adjustments	26	4	19	**49**
as at 31 December 2021	**(5,185)**	**(2,039)**	**(20,647)**	**(27,871)**

Collateral and credit risk mitigation

The amount and type of required collateral depends on the counterparty Credit Risk assessment, for which the Bank has implemented guidelines and policies defining valuation parameters and types of the collateral.
Accepted collateral types are as follows:

- For commercial lending: real estate properties, inventories, trade receivables and bank guarantees;
- For Retail lending: bank deposits, mortgages over residential properties, inventories, household assets and third party personal guarantees.

Below tables provide an analysis of the current fair values of collateral held and credit enhancements for credit–impaired (stage 3) assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD. However, the Stage 3 ECL can be higher than net exposure shown below. Due to the imposed sanctions, the Bank is restricted to sell repossessed collateral to a third party, except for the parties to the loan agreement or their legal successors.

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus collateral*	*Total collateral*		
as at 31 December 2023	**53,783**	**200**	**34,422**	**93,252**	**21,463**	**(99,193)**	**50,144**	**3,639**	**13,361**
Consumer lending	**541**	–	–	637	–	(452)	**185**	**356**	382
Corporate lending	**49,266**	–	34,422	85,991	21,463	(95,810)	**46,066**	**3,200**	12,398
Small business lending	**3,976**	200	–	6,624	–	(2,931)	**3,893**	**83**	581

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Collateral and credit risk mitigation (continued)

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus collateral*	*Total collateral*		
as at 31 December 2022	**48,578**	**–**	**48,741**	**85,681**	**(8,030)**	**(83,542)**	**42,850**	**5,729**	**6,745**
Consumer lending	**300**	–	–	–	11	–	**11**	**290**	249
Corporate lending	**48,278**	–	48,741	85,681	(8,041)	(83,542)	**42,839**	**5,439**	6,496

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*						*Net exposure*	*Associated ECL*
		Cash/ deposits	*Securities*	*Property*	*Other**	*Surplus collateral*	*Total collateral*		
as at 31 December 2021	**41,595**	**–**	**–**	**59,557**	**21,116**	**(60,038)**	**20,635**	**20,960**	**25,110**
Consumer lending	**24,762**	–	–	6,669	4,141	(5,937)	**4,873**	**19,889**	20,647
Corporate lending	**15,121**	–	–	50,005	16,975	(52,845)	**14,135**	**986**	4,219
Small business lending	**1,712**	–	–	2,883	–	(1,256)	**1,627**	**85**	244

**Movable property, equipment and inventories.*

The table above includes information only about collateral that is incorporated in the ECL estimation. The Bank might hold other types of collateral which do not affect ECL estimates. Comparative information was represented to align with the current period presentation.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. However, as described in ote 2, as a result of sanctions, the Bank is restricted from disposing the repossessed property to a third party, except for the parties to a loan agreement or their legal successor.

(Thousands of Georgian Lari)

6. Loans and advances to customers (continued)

Concentration of loans and advances to customers

As of 31 December 2023, the Bank had a concentration of loans represented by GEL 135,528 due from the ten largest borrowers (64,41% of gross loan portfolio (2022: GEL 173,387, i.e. 65,12%). An allowance of GEL 2,890 (2022: GEL 1,887) was recognised against these loans.

As of 31 December 2021, the Bank had a concentration of loans represented by GEL 258,810 due from the ten largest third party group of borrowers (16.37% of gross loan portfolio). An allowance of GEL 1,905 was recognised against these loans.

In 2023, included in total loans to customers is an exposure to a group of borrowers of GEL 28,608 or 13,60% of total loan portfolio (2022: GEL 26,834 or 10.08%), that bears an annual interest rate between 6,5% and 13,50% p.a. and matures on June 2026 (2022: an annual interest rate of 6,5% and 15,00% p.a. and matures on August 2026).

In 2021, included in total loans to customers is an exposure to a group of borrowers of GEL 36,618 or 2.32% of total loan portfolio, that bears an annual interest rate between 5% and 14.5% p.a. and matures on August 2026.

Loans have been issued to the following types of customers:

	2023	*2022*	*2021*
Commercial legal entities	200,751	254,421	945,193
Individuals	9,661	11,835	632,281
State–owned companies	-	-	3,513
Total loans and advances to customers	**210,412**	**266,256**	**1,580,987**

As of 31 December 2023, 2022 and 2021, loans and advances to customers allocation (principally issued within Georgia) by industry sectors is as follows:

	2023	*2022*	*2021*
Trading and service enterprises	145,801	186,210	517,956
Manufacturing	38,714	42,054	86,559
Individuals	9,661	11,835	632,281
Agriculture and food processing	5,949	5,701	125,352
Financial	321	355	28,115
Energy	-	869	49,874
Real estate construction	-	-	60,015
Telecommunication and transportation	-	5,784	12,258
Other	9,966	13,448	68,577
Total loans and advances to customers	**210,412**	**266,256**	**1,580,987**

(Thousands of Georgian Lari)

7. Investment and trading securities

Investment securities comprise:	*2023*	*2022*	*2021*
Debt securities at amortised cost			
Treasury bills of the Ministry of Finance	–	–	105,254
Treasury bills of the National Bank of Georgia	–	–	7,887
Corporate bonds	–	5,490	34,775
Less: allowance for impairment	–	(11)	(496)
Debt securities at amortised cost	**–**	**5,479**	**147,420**
Equity securities at FVOCI			
Corporate shares	54	54	54
Equity securities at FVOCI	**54**	**54**	**54**
Investment securities	**54**	**5,533**	**147,474**

In 2021, trading securities included treasury bills of the Ministry of Finance of Georgia in the amount of GEL 9,449.

(Thousands of Georgian Lari)

8. Property, plant and equipment

The movements in property and equipment during 2023, 2022 and 2021 were as follows:

	Land and buildings	Computers and communication equipment	Furniture, fixtures and office equipment	Utility systems and related features	Motor vehicles	Leasehold improvements	Total
Cost or revalued amount							
as at 31 December 2020	**33,438**	**17,145**	**10,238**	**1,938**	**1,988**	**2,831**	**67,578**
Additions	92	1,513	310	–	–	85	**2,000**
Disposals and write-offs	(13)	(1,044)	(650)	–	(45)	(44)	**(1,796)**
Effect of revaluation	2,223	–	–	–	–	(1,663)	**560**
as at 31 December 2021	**35,740**	**17,614**	**9,898**	**1,938**	**1,943**	**1,209**	**68,342**
Additions	-	50	54	-	-	-	**104**
Disposals and write-offs	(3,854)	(9,320)	(6,227)	-	(420)	(1,188)	**(21,009)**
as at 31 December 2022	**31,886**	**8,344**	**3,725**	**1,938**	**1,523**	**21**	**47,437**
Additions	-	20	93	-	123	-	**236**
Disposals and write-offs	-	(17)	-	-	-	(21)	(38)
as at 31 December 2023	**31,886**	**8,347**	**3,818**	**1,938**	**1,646**	**-**	**47,635**
Accumulated depreciation and impairment							
as at 31 December 2020	**(1,245)**	**(11,909)**	**(8,488)**	**(636)**	**(1,476)**	**(1,162)**	**(24,916)**
Depreciation charge	(631)	(2,000)	(606)	(68)	(213)	(536)	**(4,054)**
Disposals and write-offs	–	1,044	614	–	45	35	**1,738**
Effect of revaluation	1,876	–	–	–	–	1,663	**3,539**
as at 31 December 2021	**-**	**(12,865)**	**(8,480)**	**(704)**	(1,644)	-	**(23,693)**
Depreciation charge	(590)	(1,035)	(273)	(66)	(189)	(122)	**(2,275)**
Disposals and write-offs	22	8,629	5,407	-	420	114	**14,592**
as at 31 December 2022	**(568)**	**(5,271)**	**(3,346)**	**(770)**	**(1,413)**	**(8)**	**(11,376)**
Depreciation charge	(568)	(757)	(162)	(66)	(108)	(8)	**(1,669)**
Disposals and write-offs	-	3	-	-	-	16	**19**
as at 31 December 2023	**(1,136)**	**(6,025)**	**(3,508)**	**(836)**	**(1,521)**	**-**	**(13,026)**
Net book value							
as at 31 December 2021	**35,740**	**4,749**	**1,418**	**1,234**	**299**	**1,209**	**44,649**
as at 31 December 2022	**31,318**	**3,073**	**379**	**1,168**	**110**	**13**	**36,061**
as at 31 December 2023	**30,750**	**2,322**	**310**	**1,102**	**125**	**-**	**34,609**

(Thousands of Georgian Lari)

8. Property, plant and equipment (continued)

Last valuation of the Bank's property was made as of 31 December 2021. The appraiser is an industry specialist in valuing these types of property and equipment. The market value of the property was determined based on market data. The market approach was used to determine the fair value, and the income approach was used to validate the obtained value estimates, where lease rates or current sales for similar properties within the same area were not available. Refer to Note 24 for details on fair value measurements of the Bank's property.

The total value of fully depreciated property and equipment in use as of 31 December 2023 and 2022, amounted to GEL 8,732 and GEL 6,612, respectively.

The total value of fully depreciated property and equipment in use as of 31 December 2021, amounted to GEL 18,408.

9. Leases

The movements in right–of–use assets and lease liabilities during the year ended 31 December 2023, 2022 and 2021 were as follows:

	Right-of-use assets Buildings	Lease liabilities
As at 1 January 2023	**133**	**124**
Additions	12	20
Depreciation expense	(4)	-
Payments	-	(13)
Termination of the agreement	(141)	(131)
As at 31 December 2023	**-**	**-**

	Right-of-use assets Buildings	Lease liabilities
As at 1 January 2022	**5,063**	**5,714**
Additions	287	1,835
Depreciation expense	(708)	-
Payments	-	(963)
Termination of the agreement	(4,509)	(6,462)
As at 31 December 2022	**133**	**124**
As at 1 January 2021	**6,330**	**7,577**
Additions	1,033	1,033
Depreciation expense	(2,237)	–
Interest expense	–	333
Payments	–	(2,513)
Termination of the agreement	(63)	(78)
Translation difference	–	(638)
As at 31 December 2021	**5,063**	**5,714**

(Thousands of Georgian Lari)

10. Investment property

	2023	*2022*	*2021*
Opening balance at 1 January	**29,214**	**28,400**	**26,474**
Additions	–	2,286	2,554
Disposals	(676)	(1,266)	(1,756)
Gain on revaluation and sale of investment property	740	(206)	1,128
Closing balance at 31 December	**29,278**	**29,214**	**28,400**

The fair value of investment property was determined based on market data. The market approach was used to determine the fair value (Note 24).

11. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except for banks, insurance companies and microfinance organizations, for which the effective date was initially set at 1 January 2019. On 27 December 2018 the effective date of the amendment for banks was revised to 1 January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008–2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

In 2023, 2022 and 2021 the income tax rate applicable to the Bank's income is 15%. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax benefit expense on statutory rates with actual is as follows:

The corporate income tax expense comprises:

	2023	*2022*	*2021*
Current tax expense	(73)	1,706	(4,350)
Deferred expense – origination and reversal of temporary differences	3,080	(2,921)	2,143
Less: deferred tax recognised in other comprehensive income	-	-	3
Income tax expense	**3,007**	**(1,215)**	**(2,204)**

(Thousands of Georgian Lari)

11. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2023	*2022*	*2021*
Expense before income tax expense	**(2,607)**	**(82,347)**	**36,199**
Statutory tax rate	20%	15%	15%
Theoretical income tax expense at the statutory rate			
Theoretical income tax benefit/(expense) at the statutory rate	521	12,352	(5,430)
Change in unrecognized deferred tax assets	3,282	(11,229)	2,387
Income tax change effect	-	2,639	-
Non–deductible expenses	(1,478)	(470)	(919)
Income exempt from tax less income recognized for tax purposes only	682	(4,507)	1,758
Income tax (expense)/benefit	**3,007**	**(1,215)**	**(2,204)**

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

		Origination and reversal of temporary differences			
Tax effect of deductible temporary differences	*2021*	In the statement of profit or loss	*2022*	In the statement of profit or loss	*2023*
Allowances for impairment and provisions for other losses (DTA)	**18**	584	602	(49)	**553**
Tax losses carried forward	–	11,229	11,229	(3,282)	**7,947**
Accrued interest expense	–	–	–	–	–
Financial instruments adjustment for effective interest rates	**1,174**	466	1,640	(1,640)	–
Accrued expenses	**1,481**	(1,428)	53	2	**55**
Property and equipment and Intangible assets	**799**	(799)	–	–	–
Other	**12**	(10)	2	–	**2**
Gross deferred tax asset	**3,484**	**10,042**	**13,526**	**(4,969)**	**8,557**
Unrecognized deferred tax asset	–	(11,229)	(11,229)	3,282	**(7,947)**
Deferred tax assets	**3,484**	**(1,187)**	**2,297**	**(1,687)**	**610**
Tax effect of taxable temporary differences:					
Allowance for loan impairment	**(3,102)**	1,042	(2,060)	2,060	–
Property, plant and equipment	–	(2,325)	(2,325)	2,798	**473**
Allowances for impairment and provision for other losses	**(173)**	173	–	–	–
Financial instruments adjustment for effective interest rates	(9)	9	–	–	–
Investment property	–	(633)	(633)	(91)	**(724)**
Deferred tax liabilities	**(3,284)**	**(1,734)**	**(5,018)**	**4,767**	**(251)**
Net deferred tax (liabilities/assets)	**200**	**(2,921)**	**(2,721)**	**3,080**	**359**

(Thousands of Georgian Lari)

12. Credit loss (expense)/recovery and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2023:

	Note	Stage 1	Stage 2	Stage 3	*Total*
Cash and cash equivalents		(7)	-	-	**(7)**
Loans and advances to customers	6	(1,784)	(105)	(4,984)	**(6,873)**
Other financial assets		(2)	–	–	**(2)**
Credit loss recovery/(expense)		**(1,793)**	**(105)**	**(4,984)**	**(6,882)**
Financial guarantees		(146)	12	–	(134)
Provision for credit related commitments		**(146)**	**12**	**–**	**(134)**

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2022:

	Note	Stage 1	Stage 2	Stage 3	*Total*
Cash and cash equivalents		(3)	–	–	**(3)**
Loans and advances to customers	6	601	35	1,677	**2,313**
Other financial assets		(182)	–	–	**(182)**
Credit loss recovery/(expense)		**422**	**35**	**1,677**	**2,134**
Financial guarantees		(592)	49	-	**(543)**
Reversal of provision for credit related commitments		**(592)**	**49**	**-**	**(543)**

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended 31 December 2021:

	Note	Stage 1	Stage 2	Stage 3	*Total*
Loans and advances to customers	6	(3,156)	(185)	(8,815)	**(12,156)**
Investment securities		331	–	–	**331**
Other financial assets		(296)	–	–	**(296)**
Credit loss recovery/(expense)		**(3,121)**	**(185)**	**(8,815)**	(12,121)
Financial guarantees		(132)	11	–	**(121)**
Loan commitments		246	–	–	**246**
Provision for credit related commitments		114	11	–	125

(Thousands of Georgian Lari)

13. Other assets and liabilities

Other assets comprise:

	2023	*2022*	*2021*
Financial assets			
Unsettled transactions	15,896	7,660	3,952
Derivative financial assets	-	-	432
Other	222	242	213
Allowance for impairment of other financial assets	(2,765)	(2,874)	(105)
Total financial assets	**13,353**	**5,028**	**4,492**
Non–financial assets			
Inventories of repossessed collateral	22,021	22,488	25,191
Intangible assets	1,228	19,206	22,411
Prepayments	822	876	2,184
Prepaid operating expenses	500	702	-
Inventories in stock	335	338	129
Prepaid expenses	318	1,167	4,279
Other	274	272	269
Total non–financial assets	**25,497**	**45,048**	**54,463**
Other assets	**38,851**	**50,076**	**58,955**

(Thousands of Georgian Lari)

13. Other assets and liabilities (continued)

The movement in intangible assets during 2023, 2022 and 2021 was as follows:

	Intangible assets
At cost	
as at 31 December 2020	**26,790**
Additions	6,255
Disposals and write-offs	(39)
as at 31 December 2021	**33,006**
Additions	581
Disposals and write-offs	(1,709)
as at 31 December 2022	**31,474**
Additions	72
Disposals and write-offs	(28,387)
as at 31 December 2023	**3,159**
Accumulated amortisation and impairment	
as at 31 December 2020	**(8,352)**
Amortization charge for the year (Note 22)	(2,264)
Write-offs of fully amortised items	22
as at 31 December 2021	**(10,594)**
Amortization charge for the year (Note 22)	(2,595)
Write-offs of fully amortised items	921
as at 31 December 2022	**(12,268)**
Amortization charge for the year (Note 22)	(1,885)
Write-offs of fully amortised items	12,222
as at 31 December 2023	**(1,931)**
Net book value	
as at 31 December 2021	**22,411**
as at 31 December 2022	**19,206**
as at 31 December 2023	**1,228**

All financial assets as of the reporting date are allocated to stage 1 and there were no significant movements in ECL during the year.

(Thousands of Georgian Lari)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	2023	*2022*	*2021*
Financial liabilities			
Accrued bonuses	4	4	9,867
Lease liabilities (Note 9)	-	124	5,714
Unsettled transactions on money transfers	14,098	17,605	2,310
Accrued expenses	792	701	2,780
Derivative financial liabilities	–	–	1,246
Provisions for credit related off balance commitments	10	79	766
Settlements on plastic cards	819	821	878
Other	1	-	266
Total financial liabilities	**15,724**	**19,334**	**23,827**
Non–financial liabilities			
Advances received	109	1,632	2,044
Dividends payable to shareholders of the Bank	1,060	1,060	1,061
Operational taxes payable	2	-	115
Total non–financial liabilities	**1,171**	**2,692**	**3,220**
Other liabilities	**16,895**	**22,026**	**27,047**

14. Amounts due to banks and international financial institutions

	2023	*2022*	*2021*
Current accounts	286	285	17,051
Loans received from the parent bank	-	-	21,026
Amounts due to banks and international financial institutions	**286**	**285**	**38,077**

As of 31 December 2023 and 2022, current accounts included loans received from companies within the VTB group. As of 31 December 2021, loans received from the Parent bank had maturity June 2021 and bore annual interest rate of 7.11%.

15. Amounts due to customers

	2023	*2022*	*2021*
Individuals			
Current/on demand accounts	3,495	4,262	131,249
Term deposits	563	755	459,283
Total due to individuals	**4,058**	**5,017**	**590,532**
Commercial Legal entities			
Current/settlement accounts	10,085	17,702	499,847
Term deposits	2,833	4,829	281,443
Total due to commercial legal entities	**12,918**	**22,531**	**781,290**
Total amounts due to customers	**16,976**	**27,548**	**1,371,822**

(Thousands of Georgian Lari)

15. Amounts due to customers (continued)

Analysis of customer accounts by industries is as follows:

	2023	*2022*	*2021*
Trade and service	12,582	20,391	254,702
Individuals	4,058	5,017	590,532
Real estate construction	138	274	53,273
Agriculture	53	51	7,115
Manufacturing	52	1,727	42,608
Financial	45	46	102,673
Energy	10	10	78,607
Transport and communication	6	22	171,550
Education	6	6	17,031
Government	-	-	16,609
Other	26	4	37,122
Amounts due to customers	**16,976**	**27,548**	**1,371,822**

16. Debt securities issued

As of 31 December 2022, debt securities included two interest certificates of deposits of individuals, with an interest rate 10,35%, with maturity in March 2023. As of 31 December 2021, discount certificates of deposits and coupon certificates of deposits included GEL 98,015 and GEL 65,047, respectively.

17. Other borrowed funds

	2023	*2022*	*2021*
Borrowings from international financial institutions	–	3,311	4,433
Borrowings from NBG	–	-	101,167
Other borrowed funds	–	**3,311**	**105,600**

18. Equity

Share capital

Movements in ordinary shares authorized and fully paid were as follows:

	Number of shares authorized	*Number of shares fully paid*	*Nominal amount, GEL*
31 December 2021	209,008,277	209,008,277	209,008
31 December 2022	209,008,277	209,008,277	209,008
31 December 2023	209,008,277	209,008,277	209,008

The share capital of the Bank was contributed by the shareholders in Georgian Lari, and they are entitled to dividends and any capital distribution in Georgian Lari.

(Thousands of Georgian Lari)

18. Equity (continued)

Perpetual subordinated loan

On 29 December 2016, the Bank received perpetual subordinated loan for RUB 300 mln (GEL 13,098). As at 31 December 2023, the carrying amount of the perpetual subordinated loan was GEL 8,975 (2022: GEL 11,031). During 2023 the Bank has made no interest payment (2022: GEL 44). The perpetual subordinated loan has an unlimited term and are redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 2.5%. The Bank has at its sole discretion, an unconditional right to cancel interest payments by giving notice to the creditor before the payment date.

On 29 December 2021, the Bank received perpetual subordinated loan for RUB 1,400 mln (GEL 58,780). As at 31 December 2023, the carrying amount of the perpetual subordinated loan was GEL 41,882 (2022: GEL 51,478). During 2023 the Bank has made no interest payment (2022: GEL 989). The perpetual subordinated loan has an unlimited term and is redeemable at the Bank's option. Coupon rate comprises Central Bank of Russia key rate + 5.89%. The Bank has at its sole discretion, an unconditional right to cancel interest payments by giving notice to the creditor before the payment date.

If the Bank's Common Tier 1 capital (CET1) ratio would decrease more than it is specified in the agreement, contingent subordinated loan with the interest payables shall be written off to the extent necessary to restore to the common Tier 1 capital requirement specified in the agreement.

Dividends

In accordance with the Georgian legislation, dividends may only be declared to the shareholders of the Bank from the net income as shown in the Bank's separate financial statements prepared in accordance with the NBG requirements. The NBG shall be informed regarding declaration of dividends and also shall be authorized to suspend or restrict payment of dividends, if a commercial bank has violated regulatory requirements of the NBG.

Due to sanctions imposed, the Bank is restricted from distributing dividends, therefore, no dividends were declared or paid in 2023 and 2022 (no dividends were declared or paid in 2021).

19. Commitments and contingencies

Operating environment

After two consecutive years of double-digit growth, in 2023 the economic activity in Georgia was relatively moderate, but still solid and real GDP increased by 7.5%. In 2022, budget deficit amounted to 3.0% of GDP, while in 2023 to 2.8%.

The negative impact of lower international commodity prices on exports and imports slowed down the foreign sector activity throughout 2023. In particular, the growth of exports and imports denominated in US dollars decreased to 9.1% and 14.0%, respectively, in 2023. It is noteworthy that, these commodity price dynamics had a particular impact on exports of locally produced goods, while re-export rates were high. At the same time, it should be noted, that the share of information technology-related services in Georgian exports increased, which was mainly due to the influx of migrants in 2022.

(Thousands of Georgian Lari)

19. Commitments and contingencies (continued)

Operating environment (continued)

As a result of a stable Lari and the pass-through impact from international markets, annual consumer price inflation decreased significantly, falling from 9.8% in December 2022 to 0.4% in December 2023, significantly below the NBG's 3% target. Inflation in domestically produced goods and service prices has approached the target. Due to low inflation, the NBG reduced the monetary policy rate by a total of 150 basis points, to 9.5%.
At the end of December, the US dollar exchange rate was GEL 2.69, almost unchanged from the 2.7 GEL at the end of December 2022. During the year, the Central Bank bought USD 1,449 million and sold USD 169 million. Today, the banking sector continues to finance the Georgian economy and is characterized by a growth trend.

Legal

From time to time and in the normal course of business, claims against the Bank are received. At the reporting date the Bank had several unresolved legal claims. However, Management is of the opinion that there would be no outflow of resources and accordingly no provisions have been made in these financial statements. As of 31 December, the Bank's financial commitments and contingencies comprised the following:

	2023	*2022*	*2021*
Credit related commitments			
Undrawn loan facilities	-	24,036	120,410
Guarantees issued	2,874	4,509	71,669
Letters of credit	-	-	2,844
Financial commitments and contingencies (before deducting collateral)	**2,874**	**28,545**	**194,923**
Less – cash held as security against letters of credit, undrawn loan facility and guarantees issued (Note 15)	(2,465)	(2,766)	(14,945)
Financial commitments and contingencies	**409**	**25,779**	**179,978**

The commitments are mainly allocated to stage 1. There were no significant movements in ECL during the year.

20. Net fee and commission income

	2023	*2022*	*2021*
Commission on guarantees and other credit related commitments	69	839	1,715
Commission on cash operations	6	441	1,325
Commission on settlements operations	5	2,874	13,918
Other	-	84	277
Fee and commission income	**80**	**4,238**	**17,235**
Commission on settlements operations	(28)	(866)	(8,511)
Commission on cash operations	(1)	(437)	(963)
Commission on guarantees and other credit related commitments	-	(31)	(299)
Other	-	(4)	(14)
Fee and commission expense	**(29)**	**(1,338)**	**(9,787)**
Net fee and commission income	**51**	**2,900**	**7,448**

(Thousands of Georgian Lari)

21. Other income

	2023	2022	2021
Income from operating lease	1,103	892	202
Reimbursement of integrated marketing communication campaign costs	688	52	568
Penalties received from lending operations	245	1,085	4,162
Penalties received for deposit redemption before maturity	35	393	621
Reimbursement of legal fees	8	-	-
Penalties received for lease liabilities redemption before maturity	-	689	16
Penalties received for debt securities issued redemption before maturity	-	192	15
Gain from disposal of property	-	2,036	13
Other	26	596	528
Other income	**2,105**	**5,935**	**6,451**

22. Personnel and other operating expenses

	2023	2022	2021
Salaries	9,699	15,980	26,725
Bonuses and premiums	-	-	14,071
Defined contribution pension expense	109	239	603
Personnel expenses	**9,808**	**16,219**	**41,399**
Impairment of intangible assets	16,172	-	18
Amortisation of intangible assets (Note 13)	1,885	2,595	2,264
Computer software maintenance	992	2,033	3,611
Operating taxes	917	1,002	1,066
Utilities	514	747	1,076
Repairs and maintenance of property and equipment	393	536	954
Office supplies	304	638	1,192
Security	261	284	194
Legal and consultancy	214	1,036	1,464
Professional service expenses	206	7	243
Communications	195	574	1,453
Representation expenses	99	116	657
Business travel and related expenses	78	52	128
Insurance	77	246	631
Occupancy and rent	3	175	597
Marketing and advertising	-	903	2,253
Other operating expenses on plastic cards operations	-	91	351
Charity	-	6	55
Impairment of property and equipment	-	254	-
Impairment of other non–financial assets	-	300	-
Write off of property and equipment	-	3	47
Other	450	878	1,630
Other Operating expenses	**22,760**	**12,476**	**19,884**

(Thousands of Georgian Lari)

22. Personnel and other operating expenses (continued)

Auditor's remuneration

Remuneration of the Bank's auditor for the years ended 31 December 2023 and 2022 comprises GEL 130 (including VAT). Remuneration of the Bank's auditor for the year ended 31 December 2021 comprises GEL 185 (net of VAT).

23. Risk management

Risk is an integral part of the Bank's activities and is managed through a continuous process of identification, measurement, monitoring, risk control and other risk control measures. The Bank's risk position includes credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Bank's Supervisory Board is ultimately responsible for identifying and controlling risks of the Bank; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles. The Supervisory Board reviews the risk and capital adequacy report quarterly in the prescribed format.

Directorate

The Directorate has the responsibility to monitor the overall risk process within the Bank. The Directorate has the overall responsibility for the development of the risk strategy and implementing and approving principles, frameworks, policies and limits.

Risk management structure

The risk management structure (Risk Department) is responsible for the implementation and operation of risk-related procedures to ensure the independence of the risk control process.

Compliance risk management

The Risk Compliance Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business Bank has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities. It is also primarily responsible for the funding and liquidity risks of the Bank.

(Thousands of Georgian Lari)

23. Risk management (continued)

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Supervisory Board through the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also considers possible consequences of the worst case scenarios that would arise in the event that extreme events which could arise under extreme conditions that are usually unlikely to occur.

Information received from various business units is reviewed and processed to identify, analyze, and control risks at an early stage. This information is provided to the Board of Directors, for the head of each business unit. The report includes aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Risk management department assesses the appropriateness of the allowance for possible credit losses on a monthly basis.

Risk mitigation

As part of its overall risk management, the Bank uses various mitigation instruments to manage exposures, including the use of collateral to reduce its credit risks (see below for more detail).

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to meet their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

Credit related commitments risks

The Bank makes available to its customers guarantees and letters of credit which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the respective agreement. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies applied to loans.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Impairment assessment

The Bank calculates ECL based on several probability–weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1 When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
Key Criteria for the transition to Stage 2: Overdue amounts of loan principal and/or interest payable to the Bank at the reporting date, as well as other contractual payments on any counterparty's instrument that are 31 to 90 days overdue; Downgrade of the internal rating by more than 5 notches for A–ratings, by more than 4 notches for B–ratings, and for more than 3 notches for other ratings since initial recognition of the instrument; Any instrument of a counterparty has a status of a potentially problem transaction.

Stage 3: The criteria for the transition to Stage 3 are the criteria defining credit impairment, equivalent to indications of default under Bank's Methodology. The Bank records an allowance for the LTECL.

POCI: For purchased or originated credit–impaired (POCI) financial assets, the calculation of an effective interest rate adjusted for the credit risk should take into account ECL at the initial recognition date; no impairment allowances for such financial instruments are made. At the consecutive reporting dates, the calculation of impairment allowances requires only the measurement of accumulated lifetime movements of credit losses.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore on Stage 3 (credit–impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In addition, there are the following default factors for corporate borrowers: default restructuring, write–off or sale of deals, bankruptcy or liquidation of the counterparty, problem loans. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of qualitative assessment process of whether a counterparty is in default, the Bank also considers a variety of instances that may indicate unlikeliness to meet its debt obligations and are relevant to the risk of default occurring.

Other financial assets are automatically allocated to Stage 3 when the borrower becomes 14 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay, such as:

- External rating of the borrower indicating default;
- Bankruptcy or liquidation of the counterparty;
- Recall of the customer’s license.

When restructuring of a creditor’s debt commitments is done by replacing the original loan (with more than 90 days past) with a new loan with different economic terms (often referred to as a debt exchange), it is the Bank’s policy to consider financial instrument as “cured” when none of the listed above default criteria have been present for at least six consecutive months before reporting date. When this condition is satisfied, the new loan is reclassified out of Stage 3 to Stage 2. In case when the initial loan that was restructured was less than 90 days past due, after six monthს probation period the new loan is reclassified out of Stage 2 to Stage 1.

Internal rating and PD estimation process

The Bank’s independent Credit Risk unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 13 (A1, A2, A3, B1, B2, B3, C1, C2, C3, D1, D2, D3, E (Default)). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower’s behaviour. Where practical, they also build on information from international external rating agencies. PDs, incorporate forward looking information and the IFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate.

PD for retail portfolio is determined by internal statistical data. One–year PD is estimated at the segment level. Instruments in each segment are divided into groups of days past due (Group 1 – 0 days past due, Group 2 – one to 30 days past due, Group 3 – 31 to 60 days past due, Group 4 – 61 to 90 days past due, Group 5 – over 90 days past due). The calculation of one–year PD requires initial estimation of a transition matrix. For this purpose, an analysis is performed on the consecutive monthly periods of the loan portfolio based on history (all homogeneous statistical data available is used, with the time horizon limited to 10 years). Last column of resulting matrix represents an average one–year TTC PD. For the estimation of one–year PIT PD taking into account macroeconomic forecasts for this segment, each element of vector PD TTC is adjusted by calibration coefficient.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions and banks. For these relationships, the Bank's credit risk unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating based on overdue days, as shown in the table below.

Corporate and small business lending

For corporate loans, specialised credit risk employees of the Bank assess the borrowers. The credit risk assessment is based on a credit scoring/rating model that takes into account various historical, current and forward–looking information in accordance with the Bank rating methodology.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lendings are rated by an automated scorecard tool primarily driven by days past due.

The Bank's internal credit rating grades for loans to customers are as follows:

Internal rating grade (in Numbers)	*International external rating agency (Fitch) rating*	*Internal rating description*	*Lifetime expected credit loss*
1–2	BB– to BBB–	High grade	0–2%
3	B+		
4	B		
5–6	B–	Standard grade	2–15%
7–9	CCC/C		
10–11	CCC/C	Sub–standard grade	16–100%
12–13	D	Impaired	100%

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies a qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on individual and collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

A decision to estimate an instrument on an individual basis is made based on expert judgments, which, inter alia, take into account the following factors:

- The amount of all exposures of the borrower exceeds GEL 200 thousand;
- All Stage 3 assets, regardless of the class of financial assets;
- Stage 2 and Stage 3 corporate lending portfolio;
- The large and unique exposures of the small business lending portfolio;

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

- The treasury and interbank relationships (such as amount due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI);
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;
- Purchased POCI exposures managed on a collective basis.

The Bank groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan–to–value ratios, or borrower's industry.

Forward–looking information and multiple economic scenarios

The estimation of expected credit losses involves forecasting future economic conditions over the upcoming years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have significant risk of resulting in a material adjustment to a carrying amount in future periods. The incorporation of forward–looking elements reflects the expectations of the Bank's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non–linear impact of assumptions about macroeconomic factors on the expected credit losses.

In order to consider forward–looking information when estimating ECL, the influence of macroeconomic factors on PD is determined at the level of the aggregate share of overdue debts in the total loan portfolio of the Georgian banking sector (according to the NBG).

The functional relationship between the credit risk and macroeconomic factors is established in consideration of forward–looking information. Variables include centered and normalized shares of overdue debts (or possible transformations of those, including absolute variations and relative gains) in the total loan portfolio of the Georgian banking sector (according to the NBG). Explanatory variables include centered and normalized values of macroeconomic factors: the logarithm of the GDP growth rate and the t–2 lag of the absolute change in export growth (over the period under review), and the effect on PDs.

In its ECL model, the Bank relies on a range of forward–looking information as economic inputs, such as:

- GDP growth rate;
- Unemployment rate.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan–related lines in the statement of financial position, based on the Bank's credit rating system as at 31 December 2023 and 31 December 2022.

	Notes	Stages	High grade *2023*	Standard grade *2023*	Sub–standard grade *2023*	*Impaired*	*Total 2023*
Cash and cash equivalents, except for cash on hand	5	Stage 1	6,583	–	–	–	**6,583**
Amounts due from banks and international financial institutions		Stage 1	114	–	–	–	**114**
Loans and advances to customers	6		-	-	-	-	**-**
- Corporate lending		Stage 1	78,356	-	-	-	**78,356**
		Stage 2	-	41,567	27,572	-	**69,139**
		Stage 3	-	-	-	49,266	**49,266**
- Small business lending		Stage 1	4	-	-	-	**4**
		Stage 2	-	10	-	-	**10**
		Stage 3	-	-	-	3,976	**3,976**
- Consumer lending		Stage 1	443	-	-	-	**443**
		Stage 2	-	19	-	-	**19**
		Stage 3	-	-	-	358	**358**
- Mortgage loans		Stage 1	8,332	-	-	-	**8,332**
		Stage 2	-	326	-	-	**326**
		Stage 3	-	-	-	183	**183**
Debt Investment securities	7						
- measured at amortised cost		Stage 1	5,491	–	–	–	**5,491**
Financial guarantees	19	Stage 1	2,754	-	-	-	**2,754**
		Stage 2	-	120	-	-	**120**
Other assets	13	Stage 1	13,448	-	-	-	**13,448**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	2,671	**2,671**
Total			102,077	42,042	27,572	56,454	228,145

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

	Notes	*Stages*	*High grade 2022*	*Standard grade 2022*	*Sub–standard grade 2022*	*Impaired 2022*	*Total 2022*
Cash and cash equivalents, except for cash on hand	5	Stage 1	6,279	–	–	–	**6,279**
Amounts due from banks and international financial institutions		Stage 1	115	–	–	–	**115**
Loans and advances to customers	6						
- Corporate lending		Stage 1	132,893	31,655	-	-	**164,548**
		Stage 2	6,051	-	25,460	-	**31,511**
		Stage 3	-	-	-	48,278	**48,278**
- Small business lending		Stage 1	7,918	74	-	-	**7,992**
		Stage 2	-	-	2,092	-	**2,092**
		Stage 3	-	-	-	-	**-**
- Consumer lending		Stage 1	1,061	26	-	-	**1,088**
		Stage 2	82	-	13	-	**94**
		Stage 3	-	-	-	300	**300**
- Mortgage loans		Stage 1	9,823	243	-	-	**10,066**
		Stage 2	44	97	145	-	**286**
		Stage 3	-	-	-	-	**-**
Debt Investment securities	7						
- measured at amortised cost		Stage 1	5,491	–	–	–	**5,491**
Financial guarantees	19	Stage 1	4,389	-	-	-	**4,389**
		Stage 2	-	120	-	-	**120**
Other assets	13	Stage 1	5,219	-	-	-	**5,219**
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	2,683	**2,683**
Total			**179,365**	**32,215**	**27,710**	**51,261**	**290,551**

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

	Notes	*Stages*	*High grade 2021*	*Standard grade 2021*	*Sub–standard grade 2021*	*Impaired 2021*	*Total 2021*
Cash and cash equivalents, except for cash on hand	5	Stage 1	205,458	–	–	–	**205,458**
Amounts due from banks and international financial institutions		Stage 1	127,189	–	–	–	**127,189**
Loans and advances to customers	6						
- Corporate lending		Stage 1	289,416	329,262	8,852	–	**627,530**
		Stage 2	–	9,138	14,809	–	**23,947**
		Stage 3	–	–	–	15,121	**15,121**
- Small business lending		Stage 1	270,479	209	456	–	**271,144**
		Stage 2	1,626	7,462	164	–	**9,252**
		Stage 3	–	–	–	1,712	**1,712**
- Consumer lending		Stage 1	405,755	166,629	2,806	–	**575,190**
		Stage 2	253	16,013	10,190	–	**26,456**
		Stage 3	–	–	5	24,757	**24,762**
– Loans collateralized with deposits		Stage 1	5,873	–	–	–	**5,873**
		Stage 2					
		Stage 3					
Debt Investment securities	7						
- measured at amortised cost		Stage 1	147,916	–	–	–	**147,916**
Undrawn loan commitments	19	Stage 1	85,385	33,918	–	–	**119,303**
		Stage 2	1,105	–	–	–	**1,105**
		Stage 3	2	–	–	–	**2**
Letters of credit	19	Stage 1	2,844	–	–	–	**2,844**
Financial guarantees	19	Stage 1	56,135	11,384	30	–	**67,549**
		Stage 2	–	4,120	–	–	**4,120**
Other assets	13	Stage 1	–	4,165	–	–	**4,165**
Total			**1,599,436**	**582,300**	**37,312**	**41,590**	**2,260,638**

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates effective management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The risk ratings are assessed and updated regularly.

For the purpose of these financial statements a loan is considered overdue when the borrower fails to make any payment due under the loan agreement at the reporting date. In this case the aggregate amount of all amounts due from borrower under the respective loan agreement including accrued interest and commissions is recognised as overdue.

Loans and advances to customers have been assessed for impairment on a collective basis. Details of loan loss allowance of loan portfolio are disclosed in Note 6.

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated (restructured and refinanced) financial assets, by class:

	2023	*2022*	*2021*
Loans and advances to customers			
Consumer lending	379	478	27,851
Corporate lending	47,706	37,818	23,421
Small business lending	-	105	6,743
Total	**48,085**	**38,401**	**58,015**

Individually assessed allowances

The measurement of expected credit losses on an individual basis is performed taking into account time value of money, as well as information about the past, current and forecast economic conditions that is reasonably available. When measuring a provision for each financial instrument on an individual basis, possible scenarios of cash inflows to settle the debt are determined. For each financial instrument measured on an individual basis, the provision is calculated as the difference between the current gross carrying amount and present value of cash flows weighted by the probability of the respective scenario. Scenarios of cash flows are based on the settlement strategies, which are applied/are planned to be applied/may be applied to the borrower. Probabilities of scenarios, amounts and timing of cash inflows are determined by expert judgment.

Collectively assessed allowances

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12–month PD by LGD and EAD. For Stage 2 and Stage 3 LTECL is calculated by multiplying the lifetime PD by LGD and EAD.

ECL is calculated for the following assets:

- Corporate customers;
- SMEs;
- Amounts due from banks and international financial institutions
- Guarantees and letters of credit;
- Securities portfolio;
- Individuals (by products).

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

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

	2023				*2022*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	CIS and other foreign countries	*Total*
Assets								
Cash and cash equivalents	146,554	6,580	3	**153,137**	99,716	5,759	520	**105,995**
Amounts due from banks and international financial institutions	–	114	–	**114**	–	114	–	**114**
Loans and advances to customers	190,645	-	5,881	**196,526**	252,585	–	6,653	**259,238**
Investment securities	54	–	–	**54**	5,533	–	–	**5,533**
Equity securities at FVOCI	54	–	–	**54**	54	–	–	**54**
Debt securities at amortised cost	-	–	–	**-**	5,479	–	–	**5,479**
Other financial assets	8,408	221	7,395	**16,024**	235	217	7,259	**7,711**
	345,661	**6,915**	**13,279**	**365,855**	**358,069**	**6,090**	**14,432**	**378,591**
Liabilities								
Amounts due to banks and international financial institutions	–	–	286	**286**	–	–	284	**284**
Amounts due to customers	16,827	-	149	**16,976**	27,541	4	2	**27,547**
Debt securities issued	-	-	-	**-**	22	-	-	**22**
Other borrowed funds	-	-	-	**-**	1	3,310	-	**3,311**
Subordinated loan	-	-	95,901	**95,901**	-	-	107,633	**107,633**
Other financial liabilities	-	-	15,724	**15,724**	-	1	19,333	**19,334**
	16,827	**-**	**112,060**	**128,887**	**27,564**	**3,315**	**127,252**	**158,131**
Net assets/(liabilities)	**328,834**	**6,915**	**(98,781)**	**236,968**	**330,505**	**2,775**	**(112,820)**	**220,460**

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

	2021			
	Georgia	*OECD*	CIS and other foreign countries	*Total*
Assets				
Cash and cash equivalents	223,690	30,134	13,101	**266,925**
Amounts due from banks and international financial institutions	127,035	155	–	**127,190**
Loans and advances to customers	1,513,893	1,944	24,127	**1,539,964**
Investment securities	156,923	–	–	**156,923**
Equity securities at FVOCI	54	–	–	**54**
Debt securities at amortised cost	147,420	–	–	**147,420**
Debt securities at FVPL	9,449	–	–	**9,449**
Other financial assets	4,237	70	185	**4,492**
	2,025,778	**32,303**	**37,413**	**2,095,494**
Liabilities				
Amounts due to banks and international financial institutions	21,139	–	16,938	**38,077**
Amounts due to customers	1,229,442	50,869	91,511	**1,371,822**
Debt securities issued	146,884	2,302	13,876	**163,062**
Other borrowed funds	101,167	4,433	–	**105,600**
Subordinated loan	–	–	112,977	**112,977**
Other financial liabilities	23,661	91	75	**23,827**
	1,522,293	**57,695**	**235,377**	**1,815,365**
Net assets/(liabilities)	**503,485**	**(25,392)**	**(197,964)**	**280,129**
Net Financial liabilities	**187,618**	**4,267**	**2,270**	**194,155**

(Thousands of Georgian Lari)

23. Risk management (continued)

Credit risk (continued)

Collateral and credit risk mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. Management monitors the market value of collateral and may request additional collateral in accordance with the underlying agreement. It is the Bank policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

The list of acceptable forms of credit support is subject to periodical review. The Bank has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, a bank officer conducts inspection of the physical existence of collateral offered.

The Bank reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Bank's Management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of state securities that can be pledged to the NBG to obtain financing in the event of demand. The Bank also has committed lines of credit that it can use to meet liquidity needs.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratio established by the NBG.

Under this requirement Banks must hold the liquid assets that can be used to meet their liquidity needs for upcoming 30–calendar days. As of 31 December 2023, and 2022 the ratio was as follows:

The Banks are obliged to keep LCR at least equal to 100%, 75% and 100% in foreign currency ("FC"), national currency ("NC") and in total, respectively.

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

	2023 (local standard)	*2022 (local standard)*	*2021 (local standard)*
LK "Liquidity Coverage Ratio" in FC (hold high–quality liquid assets / Total net cash outflow)	417%	332%	179%
LK "Liquidity Coverage Ratio" in NC (hold high–quality liquid assets / Total net cash outflow)	1,030%	218%	103%
Total LK "Liquidity Coverage Ratio" (hold high–quality liquid assets / Total net cash outflow)	631%	273%	142%

From 1 September 2019, NBG additionally introduced the minimum requirement for Net Stable Financing Ratio (NSFR) for commercial banks in Georgia, which should be at least 100%. As of 31 December 2023, the actual performance of the NSFR by the Bank was 152% (2022: 142% (local standard)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Non–derivative liabilities as of 31 December 2023	*On demand and less than or equal to 1 month*	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	286	–	–	–	–	**286**
Amounts due to customers	–	–	–	–	16,976	**16,976**
Subordinated loan	–	–	–	–	95,901	**95,901**
Other financial liabilities, except lease liabilities	–	–	–	–	15,724	**15,724**
Total cash flow payable under non–derivative liabilities	**286**	**-**	**-**	**-**	**128,601**	**128,887**

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Non-derivative liabilities as of 31 December 2022	*On demand and less than or equal to 1 month*	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	284	–	–	–	–	**284**
Amounts due to customers	–	–	–	–	27,548	**27,548**
Debt securities issued	22	–	–	–	–	**22**
Other borrowed funds	3,311	–	–	–	–	**3,311**
Subordinated loan	–	–	–	–	107,633	**107,633**
Lease liabilities	–	–	–	–	124	**124**
Other financial liabilities, except lease liabilities	–	–	–	–	19,210	**19,210**
Total cash flow payable under non–derivative liabilities	**3,617**	**-**	**-**	**-**	**154,515**	**158,132**

Non–derivative liabilities as of 31 December 2021	*On demand and less than or equal to 1 month*	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
Amounts due to banks and international financial institutions	38,077	–	–	–	–	**38,077**
Amounts due to customers	795,252	134,924	153,829	200,137	116,581	**1,400,723**
Debt securities issued	6,713	5,186	36,305	50,518	109,262	**207,984**
Other borrowed funds	101,166	–	223	222	4,177	**105,788**
Subordinated loan	118	2,737	2,905	5,792	173,484	**185,036**
Lease liabilities	243	436	635	789	4,345	**6,448**
Other financial liabilities, except lease liabilities	9,748	4,127	3,594	107	544	**18,120**
Total cash flow payable under non–derivative liabilities	**951,317**	**147,410**	**197,491**	**257,565**	**408,393**	**1,962,176**
Derivative financial instruments – gross						
Positive fair value of derivatives						
(Inflow)	(24,781)	–	–	(210)	(892)	**(25,883)**
Outflow	24,670	–	–	163	691	**25,524**
Derivative financial instruments – gross						
Negative fair value of derivatives						
(Inflow)	(148,160)	(11,320)	–	–	–	**(159,480)**
Outflow	148,440	11,771	–	–	–	**160,211**

(Thousands of Georgian Lari)

23. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	On demand and less than or equal 1 month	*More than 1 month and less than or equal to 3 months*	*More than 3 months and less than or equal to 6 months*	*More than 6 months and less than or equal to 1 year*	*More than 1 year*	*Total*
2023	400	138	2,120	-	216	**2,874**
2022	186	1,199	1,113	26,047	-	**28,545**
2021	78,326	15,229	26,396	15,497	59,475	**194,923**

Commitments and contingencies may be callable on demand, however, liquidation historically has taken place over a longer period.

Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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 above.

Market risk

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

Market risk – trading

The bank does not trade derivative financial instruments or other securities.

Market risk – non–trading

Currency risk

The Bank is exposed to currency risk. Currency risk arises from open position in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Bank. The Management Board has set limits on positions by currency based on the NBG's regulations. Positions are monitored on a daily basis.

(Thousands of Georgian Lari)

23. Risk management (continued)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to be prepaid at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income
2023	2,039
2022	2,787
2021	20,142

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to effectively manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

As of 31 December 2023, the Bank's operational loss amounted to GEL 413,238 ((2022: GEL 33824), which mainly includes the fines of the National Bank for certain types of errors made in operational activities.

24. Fair value measurement

The Bank's Board of Directors has determined the policies and procedures for the remeasurement of fair value of investment property.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by the Board of Directors. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board of Directors decides, after discussions with the Bank's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of Directors analyses the movements in the values of assets and liabilities which are required to be remeasured as per the Group's accounting policies. For this analysis, the management in conjunction with Bank's external valuers verifies the major inputs applied in the latest valuation by reconciling the information in the valuation computation to contracts and other relevant documents.

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are determined by level of the fair value hierarchy:

(Thousands of Georgian Lari)

24. Fair value measurement (continued)

Fair value hierarchy (continued)

As at 31 December 2023	Level 1	Level 2	Level 3	*Total*
Assets measured at fair value				
Equity securities at FVOCI	–	–	54	**54**
Total investment property	**–**	**–**	**29,278**	**29,278**
Land	–	–	1,102	**1,102**
Residential properties	–	–	14,225	**14,225**
Non–residential properties	–	–	13,951	**13,951**
Total Land and buildings	**–**	**–**	**34,609**	**34,609**
Land	–	–	8,028	**8,028**
Office buildings	–	–	26,581	**26,581**

As at 31 December 2023	Level 1	Level 2	Level 3	*Total*
Assets for which fair value has not been determined				
Cash and cash equivalents	146,554	6,583	–	**153,137**
Amounts due from banks and international financial institutions	–	114	–	**114**
Loans and advances to customers	–	–	196,526	**196,526**
Liabilities for which fair value has not been determined				
Amounts due to banks and international financial institutions	–	286	–	**286**
Amounts due to customers	–	–	16,976	**16,976**
Subordinated loan	–	95,901	–	**95,901**

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

As at 31 December 2022	Level 1	Level 2	Level 3	*Total*
Assets measured at fair value				
Equity securities at FVOCI	–	–	54	**54**
Total investment property	**–**	**–**	**29,214**	**29,214**
Land	–	–	1,072	**1,072**
Residential properties	–	–	13,825	**13,825**
Non–residential properties	–	–	14,317	**14,317**
Total Land and buildings	**–**	**–**	**36,061**	**36,061**
Land	–	–	5,101	**5,101**
Office buildings	–	–	30,960	**30,960**
Right-of-use assets	**–**	**–**	**133**	**133**
Assets for which fair value has not been determined				
Cash and cash equivalents	99,716	6,279	–	**105,995**
Amounts due from banks and international financial institutions	–	115	–	**115**
Loans and advances to customers	–	–	259,238	**259,238**
Debt securities at amortised cost	–	–	5,479	**5,479**
Liabilities for which fair value has not been determined				
Amounts due to banks and international financial institutions	–	285	–	**285**
Amounts due to customers	–	–	27,548	**27,548**
Debt securities issued	–	–	22	**22**
Other borrowed funds	–	3,311	–	**3,311**
Subordinated loan	–	107,633	–	**107,633**
Lease liabilities	–	–	124	**124**

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

As at 31 December 2021	Level 1	Level 2	Level 3	*Total*
Assets measured at fair value				
Equity securities at FVOCI	–	–	54	**54**
Debt securities at FVPL	–	9,449	–	**9,449**
Derivative financial assets	–	432	–	**432**
Total investment property	**–**	**–**	**28,400**	**28,400**
Land	–	–	1,102	**1,102**
Residential properties	–	–	14,225	**14,225**
Non–residential properties	–	–	13,073	**13,073**
Total Land and buildings	**–**	**–**	**35,740**	**35,740**
Land	–	–	8,028	**8,028**
Office buildings	–	–	21,111	**21,111**
Service centres	–	–	6,601	**6,601**
Right-of-use assets	**–**	**–**	**5,063**	**5,063**
Assets for which fair value has not been determined				
Cash and cash equivalents	61,467	205,458	–	**266,925**
Amounts due from banks and international financial institutions	–	127,189	–	**127,189**
Loans and advances to customers	–	–	1,542,356	**1,542,356**
Debt securities at amortised cost	–	112,988	34,511	**147,499**
Liabilities measured at fair value				
Derivative financial liabilities	–	1,246	–	**1,246**
Liabilities for which fair value has not been determined				
Amounts due to banks and international financial institutions	–	38,077	–	**38,077**
Amounts due to customers	–	–	1,375,153	**1,375,153**
Debt securities issued	–	–	164,466	**164,466**
Other borrowed funds	–	105,540	–	**105,540**
Subordinated loan	–	107,494	–	**107,494**
Lease liabilities	–	–	5,947	**5,947**

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

During the years ended 31 December 2023 and 2022, there have been no transfers between levels of fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position, except for assets for which fair value approximates carrying value – those assets that are liquid or have a short term maturity (less than three months or bear floating interest rate).

	Carrying amount ***2023***	**Fair value 2023**	**Unrecognised gain/(loss) 2023**	**Carrying value 2022**	**Fair value 2022**	**Unrecognised gain/(loss) 2022**
Financial assets						
Debt securities at amortised cost	153,137	153,137	-	105,995	105,995	-
Amounts due from banks and international financial institutions	114	114	-	115	115	-
Loans and advances to customers	196,526	192,949	(3,577)	259,238	254,293	(4,945)
Financial liabilities						
Amounts due to banks and international financial institutions	286	286	-	285	285	-
Amounts due to customers	16,976	16,926	(50)	27,548	27,431	(117)
Debt securities issued	-	-	-	22	22	-
Other borrowed funds	-	-	-	3,311	2,803	508
Subordinated loan	95,901	96,009	(108)	107,633	120,202	(12,569)
Lease liabilities	-	-	-	124	124	-
Total unrecognised change in unrealised fair value			**(3,735)**			**(17,123)**

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

	Carrying amount *2021*	Fair value 2021	Unrecognised gain/(loss) 2021
Financial assets			
Debt securities at amortised cost	147,420	147,499	79
Amounts due from banks and international financial institutions	127,189	127,189	–
Loans and advances to customers	1,539,964	1,542,356	2,392
Financial liabilities			
Amounts due to banks and international financial institutions	38,077	38,077	–
Amounts due to customers	1,371,822	1,375,153	(3,331)
Debt securities issued	163,062	164,466	(1,404)
Other borrowed funds	105,600	105,540	60
Subordinated loan	112,977	107,494	5,483
Lease liabilities	5,714	5,947	(233)
Total unrecognised change in unrealised fair value			**3,046**

The following describes the methodologies and assumptions used to determine fair values for the financial instruments.

Assets for which fair value approximates carrying value

Typically, for financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) or bear floating interest rate, it is assumed that the carrying amounts approximate their fair value.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are already recorded at fair value in the financial statements.

Equity securities at FVOCI

Equity securities at FVOCI are valued using valuation technique. These securities are valued using models which incorporate data observable in the market and at other times use both observable and non–observable data. The non–observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange swaps and forward rates and interest rate curves.

Property and equipment (buildings and land) and investment property

The market value of the property is determined based on the market data. The market approach is used to determine the fair value, the income approach is used to validate the obtained value estimates, and the cost approach is used to determine the value of real property where no information on recent sales or lease rates for similar properties within the same area is available.

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non–financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2023:

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the inputs to fair value
Investment property	**29,278**						
Land	3,046	Market approach	Price per square metre	0.02–451 (45) Georgian lari	Square metre	111–120,867 (8,523)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 305 Georgian lari
Residential properties	14,225	Market approach	Price per square metre	0.86–3,025 (534) Georgian lari	Square metre	158–6,811 (1,821)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,345 Georgian lari
Non–residential properties	**13,951**						
	13,951	Market approach	Price per square metre	1.62–47,283 (2,504) Georgian lari	Square metre	40–13,560 (3,704)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,278 Georgian lari
Revaluation of land and buildings	**31,886**						
Land	7,992	Market approach	Price per square metre	93–3,604 (1,848) Georgian lari	Square metre	999–2,192 (1,596)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 799 Georgian lari
Office buildings	23,894	Market approach	Price per square metre	365– 12,141 (2,551) Georgian lari	Square metre	16–4,344 (343)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,389 Georgian lari

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2022:

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the inputs to fair value
Investment property	**29,214**						
Land	3,144	Market approach	Price per square metre	0.02–481 (49) Georgian lari	Square metre	111–120,867 (8,523)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 314 Georgian lari
Residential properties	12,786	Market approach	Price per square metre	0.66– 2,490 (473) Georgian lari	Square metre	158–6,811 (1,821)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,279 Georgian lari
Non–residential properties	**13,284**						
	13,284	Market approach	Price per square metre	1.40– 48,562 (2,506) Georgian lari	Square metre	40–13,560 (3,704)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,328 Georgian lari
Revaluation of land and buildings	**31,886**						
Land	7,992	Market approach	Price per square metre	93–3,604 (1,848) Georgian lari	Square metre	999–2,192 (1,596)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 799 Georgian lari
Office buildings	23,894	Market approach	Price per square metre	365– 12,141 (2,551) Georgian lari	Square metre	16–4,344 (343)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,389 Georgian lari

(Thousands of Georgian Lari)

24. Fair value measurements (continued)

Fair value hierarchy (continued)

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment as of 31 December 2021:

	Amount	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the inputs to fair value
Investment property	**28,400**						
Land	1,102	Market approach	Price per square metre	0.05– 7,744 (236) Georgian lari	Square metre	1–80,223 (7,134)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 110 Georgian lari
Residential properties	14,225	Market approach	Price per square metre	0.62–3,581 (693) Georgian lari	Square metre	1–59,956 (350)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,423 Georgian lari
Non–residential properties	**13,073**						
	13,073	Market approach	Price per square metre	1.39–15,488 (2,145) Georgian lari	Square metre	11– 59,956 (1,748)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,307 Georgian lari
Revaluation of land and buildings	**35,740**						
Land	8,028	Market approach	Price per square metre	71–4,426 (1,431) Georgian lari	Square metre	636–21,222 (4,408)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 802 Georgian lari
Office buildings	21,111	Market approach	Price per square metre	675 – 4,202 (2,658) Georgian lari	Square metre	39–7,500 (846)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,135 Georgian lari
Service centers / means of production	6,601						
	6,601	Market approach	Price per square metre	91– 17,965 (9,379) Georgian lari	Square metre	1–21,222 (587)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 467 Georgian lari

(Thousands of Georgian Lari)

25. Maturity analysis of financial assets and liabilities

The table below shows assets and liabilities as at 31 December 2023 and 2022 by their remaining expected maturity. Refer to Note 23 for the Bank's contractual undiscounted repayment obligations.

Following principles underlying gap analysis presentation and the Bank's liquidity risk management are based on the mix of NBG approach and the Bank's practice:

- Cash and cash equivalents represent highly liquid assets and are classified as "On demand, less than or equal to 1 month";
- Loans and advances to customers, investment securities, amounts due from banks and international financial institutions, other assets, amounts due to banks and international financial institutions, debt securities issued, other borrowed funds, subordinated debt and other liabilities are included into gap analysis table based on remaining contractual maturities;
- Diversification of customer deposits of the bank by number and type of depositors and the past experience of the Bank indicates that such accounts and deposits provide a long–term and stable source of funding, and as a result they are allocated per expected time of funds outflow in the gap analysis table on the basis of statistical data accumulated by the Bank during the previous periods and assumptions regarding the "stable part" of current account balances.

	2023							
	On demand and less than or equal to 1 month	More than 1 month and less than or equal to 3 months	More than 3 months and less than or equal to 6 months	More than 6 months and less than or equal to 1 year	More than 1 year	*Overdue*	No stated maturity	*Total*
Financial assets								
Cash and cash equivalents	153,137	–	–	–	–	–	–	**153,137**
Amounts due from banks and international financial institutions	-	114	–	–	–	–	–	**114**
Loans and advances to customers	–	–	–	–	196,526	–	–	**196,526**
Investment securities - FVOCI;	–	–	–	–	–	–	54	**54**
Other financial assets	–	–	–	–	–	–	16,024	**4,492**
Total	**153,137**	**114**	–	–	**196,526**	**-**	**16,078**	**354,323**
Financial liabilities								
Amounts due to banks and international financial institutions	286	–	–	–	–	–	–	**286**
Amounts due to customers	–	–	–	–	16,976	–	–	**16,976**
Subordinated loan	–	–	–	–	95,901	–	–	**95,901**
Other financial liabilities	–	–	–	–	15,724	–	–	**15,724**
Total	**286**	**-**	–	–	**128,601**	–	**-**	**128,887**
Net	**152,851**	**114**	–	–	**67,925**	**-**	**16,078**	**225,436**
Cumulative maturity gap	**152,851**	**152,965**	**152,965**	**152,965**	**220,890**	**220,890**	**236,968**	–

(Thousands of Georgian Lari)

25. Maturity analysis of financial assets and liabilities (continued)

	2022							
	On demand and less than or equal to 1 month	More than 1 month and less than or equal to 3 months	More than 3 months and less than or equal to 6 months	More than 6 months and less than or equal to 1 year	More than 1 year	*Overdue*	No stated maturity	Total
Financial assets								
Cash and cash equivalents	105,995	–	–	–	–	–	–	**105,995**
Amounts due from banks and international financial institutions	–	115	–	–	–	–	–	**115**
Loans and advances to customers	–	–	–	–	259,238	–	–	**259,238**
Investment securities								
- debt at amortised cost	5,479	–	–	–	–	–	–	**5,479**
- FVOCI;	–	–	–	–	–	–	54	**54**
Other financial assets	–	–	–	–	–	–	7,711	**7,711**
Total	**111,474**	**115**	**-**	**-**	**259,238**	**-**	**7,765**	**378,592**
Financial liabilities								
Amounts due to banks and international financial institutions	285	–	–	–	–	–	–	**285**
Amounts due to customers	–	–	–	–	27,548	–	–	**27,548**
Debt securities issued	22	–	–	–	-	–	–	**22**
Other borrowed funds	3,311	–	–	–	–	–	–	**3,311**
Subordinated loan	–	–	–	–	107,633	–	–	**107,633**
Other financial liabilities	–	–	–	–	19,334	–	–	**19,334**
Total	**3,618**	**-**	**-**	**-**	**154,515**	**-**	**-**	**158,133**
Net	**107,856**	**115**	**-**	**-**	**104,723**	**-**	**7,765**	**220,459**
Cumulative maturity gap	**107,856**	**107,971**	**107,971**	**107,971**	**212,694**	**212,694**	**220,459**	**-**

(Thousands of Georgian Lari)

25. Maturity analysis of financial assets and liabilities (continued)

	2021							
	On demand and less than or equal to 1 month	More than 1 month and less than or equal to 3 months	More than 3 months and less than or equal to 6 months	More than 6 months and less than or equal to 1 year	More than 1 year	*Overdue*	No stated maturity	Total
Financial assets								
Cash and cash equivalents	266,925	–	–	–	–	–	–	**266,925**
Amounts due from banks and international financial institutions	28,743	14,015	11,344	22,153	50,934	–	–	**127,189**
Loans and advances to customers	74,002	157,118	105,998	235,469	951,599	15,778	–	**1,539,964**
Investment securities								
- debt at amortised cost	2,269	11,444	42,013	31,147	60,547	–	–	**147,420**
- debt at FVPL	–	–	413	395	8,641	–	–	**9,449**
- FVOCI;						–	54	**54**
Other financial assets	2,275	5	4	1,843	365	–	–	**4,492**
Total	**374,214**	**182,582**	**159,772**	**291,007**	**1,072,086**	**15,778**	**54**	**2,095,493**
Financial liabilities								
Amounts due to banks and international financial institutions	38,077	–	–	–	–	–	–	**38,077**
Amounts due to customers	255,958	160,239	160,377	205,412	589,836	–	–	**1,371,822**
Debt securities issued	6,693	5,139	35,310	47,646	68,274	–	–	**163,062**
Other borrowed funds	101,166	–	206	206	4,022	–	–	**105,600**
Subordinated loan	102	328	–	–	112,547	–	–	**112,977**
Other financial liabilities	9,965	4,509	4,162	864	4,327	–	–	**23,827**
Total	**411,961**	**170,215**	**200,055**	**254,128**	**779,006**	–	–	**1,815,365**
Net	**(37,747)**	**12,367**	**(40,283)**	**36,879**	**293,080**	**15,778**	**54**	**280,128**
Cumulative maturity gap	**(37,747)**	**(25,380)**	**(65,663)**	**(28,784)**	**264,296**	**280,074**	**280,128**	**–**

Long–term loans are generally not available in Georgia. However, on the Georgian market, many short–term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

(Thousands of Georgian Lari)

26. Related party disclosures

As of 31 December 2023 and 2022, outstanding balances on related party transactions are as follows:

	2023			*2022*		
	The Parent	**Entities under common control**	**Key management personnel**	**The Parent**	**Entities under common *Control***	**Key management personnel**
Cash and cash equivalents	–	3	–	–	1,897	–
Loans and advances to customers, gross	–	1,488	–	–	1,442	–
Less: allowance for impairment	–	(1,290)	–	–	(5)	–
Loans and advances to customers, net	–	198	–	–	1,437	–
Amounts due to banks and international financial institutions	–	286	–	-	285	–
Subordinated loan	95,901	–	–	107,633	–	–
Other liabilities	13,654	–	–	16,783	-	–

	2021		
	The Parent	**Entities under common control**	**Key management personnel**
Cash and cash equivalents	11,274	2,908	–
Loans and advances to customers, gross	–	16,477	66
Less: allowance for impairment	–	(1,335)	(1)
Loans and advances to customers, net	–	15,142	65
Other assets	–	110	–
Amounts due to banks and international financial institutions	3,021	13,609	–
Amounts due to customers	–	11,231	6,394
Debt securities issued			3,691
Other borrowed funds	–	–	–
Subordinated loan	112,977	–	–
Other liabilities	940	312	–
Commitments and guarantees issued	–	28	100

Entities under common control are companies that directly or indirectly through one or more intermediaries are managed or controlled by or are under common control with the Bank (this includes subsidiaries and fellow subsidiaries and holding companies). In these financial statements included into entities under common control are the members of VTB Group and other legal entities controlled by the Russian Federation.

On 13 October 2014, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 126,400. The carrying value as of 31 December 2021 was GEL 5,243 (2020: GEL 5,657), with interest rate of 11% payable quarterly and maturity on 13 October 2021. On 15 December 2020 the subordinated loan was restructured with interest rate of 8.93% payable quarterly and maturity on 29 October 2027.

On 31 August 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 816,985. The carrying value as of 31 December 2021 was GEL 33,888 (2020: GEL 36,293), with interest rate of 10.5% payable quarterly and maturity on 29 August 2025. On 31 August 2020 subordinated loan was restructured with interest rate of 10.5% payable quarterly and maturity on 29 August 2027.

(Thousands of Georgian Lari)

26. Related party disclosures (continued)

On 31 December 2018, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 414,000. The carrying value as of 31 December 2021 was GEL 17,172 (2020: GEL 18,242), with interest rate of 11.5% payable quarterly and maturity on 26 December 2025. On 15 December 2020 subordinated loan was restructured with interest rate of 8.99% payable quarterly and maturity on 1 December 2027.

On 29 December 2020, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 455,394. The carrying value as of 31 December 2021 was GEL 18,889 (2020: GEL 20,061) with interest rate of 8.92% payable quarterly and maturity on 17 December 2027.
On 29 December 2021, the Bank entered into a subordinated loan agreement with the Parent bank for the total amount of RUB 900,000. The carrying value as of 31 December 2021 was GEL 37,331 with interest rate of 11.51% payable quarterly and maturity on 25 December 2028.

In the case of a liquidation of the Bank, these loans are only repayable after all the obligations to the Bank's senior creditors have been met.

The income and expense arising from related party transactions are presented in the table below:

	2023			*2022*		
	The Parent	**Entities under common control**	**Key management personnel**	**The Parent**	**Entities under common control**	**Key management personnel**
Interest revenue calculated using effective interest rate	–	–	–	5	481	1
Interest expense	(8,642)	–	–	(10,404)	96	247
Fee and commission income	–	–	–	–	9	4
Fee and commission expense	–	–	–	(8)	–	–
Other Operating costs	–	–	–	3	–	–

	2021		
	The Parent	**Entities under common control**	**Key management personnel**
Cash and cash equivalents	11,274	2,908	–
Loans and advances to customers, gross	–	16,477	66
Less: allowance for impairment	–	(1,335)	(1)
Loans and advances to customers, net	–	15,142	65
Other assets	–	110	–
Amounts due to banks and international financial institutions	3,021	13,609	–
Amounts due to customers	–	11,231	6,394
Debt securities issued			3,691
Subordinated loan	112,977	–	–
Other liabilities	940	312	–
Commitments and guarantees issued	–	28	100

Key management personnel as of 31 December 2023 comprise 4 members of the Supervisory Board and 6 members of the Board of Directors of the Bank (2022: 4 members of the Supervisory Board and 4 members of the Board of directors of the Bank and 2021: 6 members of the Supervisory Board and 6 members of the Board of Directors of the Bank).

The Bank had no significant transactions with members of the Supervisory Board in 2022, 2021 and 2020.

(Thousands of Georgian Lari)

27. Capital adequacy

The Bank maintains and actively manages 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 to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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 return capital to shareholders or issue capital securities.

NBG requires that all banks comply with Basel II regulations in their capital adequacy assessment. NBG adopted amendments to the regulations, introducing amendment relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important commercial banks, on determining new systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar II.

Capital adequacy ratio

During 2020 the National Bank of Georgia has taken important measures to mitigate the negative impact of the COVID–19 pandemic on the banking sector. Banks were given relief on the capital requirements by reduction of the capital conservation buffer (2.5% of the risk weighted assets) and the portion of the pillar 2 buffer (2/3 of the currency induced credit risk buffer). In addition, HHI and Grape Buffer requirements on CET 1 and Tier 1 capital planned at the end of March 2020 postponed indefinitely. NBG has also put in place a moratorium on any regulatory breaches Fof commercial banks caused by external factors such as additional credit losses, foreign exchange rate fluctuations and so on.

As at 31 December 2021 the NBG restored all previously wavered capital requirements.

As at 31 December 2023, the NBG requires banks to maintain a minimum regulatory capital adequacy ratio, the common Tier 1 capital coefficient and Tier 1 coefficient of 28.07%, 21.19% and 24.15% respectively (2022: Minimum regulatory capital adequacy ratio, the common Tier 1 capital coefficient and Tier 1 coefficient of 21.01%, 10.97% and 13.79%, respectively, according to the local standard).

The Bank was in compliance with these capital adequacy ratios as of 31 December 2023 and 2022. The Bank's capital adequacy ratios on this basis were as follows:

	2023 (local standard)	***2022* (local standard)**	***2021* (local standard)**
Common Equity Tier 1 capital	261,350	174,241	213,543
Additional Tier 1 capital	50,857	62,509	70,514
Tier 1 capital	**312,207**	**236,750**	**284,057**
Tier 2 capital	**64,023**	**90,177**	**134,504**
Total regulatory capital	**376,230**	**326,927**	**418,561**
Risk weighted assets	**584,688**	**627,334**	**2,007,149**
Common Equity Tier 1 capital adequacy ratio	**44.70%**	**27.77%**	**10.64%**
Tier 1 capital adequacy ratio	**53.40%**	**37.74%**	**14.15%**
Total capital adequacy ratio	**64.35%**	**52.11%**	**20.85%**