JSC Ziraat Bank Georgia

Financial Statements

Together with the Independent Auditor's Report

Year ended 31 December 2023

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INDEPENDENT AUDITOR'S REPORT

To shareholders and supervisory board of **JSC ZIRAAT BANK GEORGIA**

Opinion

We have audited the accompanying financial statements of **JSC ZIRAAT BANK GEORGIA** (hereinafter the "Bank"), which comprise the statements of financial position as at 31 December 2023 and the statement of comprehensive income, statement of cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other information

The management is responsible for the preparation of other information, which is given in the management report. Other information was not provided until the date of auditor's opinion. Our opinion on financial statements does not cover above mentioned other information. Probably, management report will be available to us after the date of auditor's opinion.

In preparing the financial statements, we are responsible to review the above-mentioned other information and assess whether it is materially inconsistent with the financial statements or with evidence obtained during the audit or gives the impression that it is materially misstated. If based on our work performed, we conclude that other information is materially misstated, we are obliged to disclose this information.

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

Management is responsible for the preparation and fair presentation of 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.

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

BDO Audit LLC, a Georgian Limited Liability Company (ID 205145403), is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is

Ivane Zhuzhunashvili (Saras-A-720718)

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

15 May 2024

JSC ZIRAAT BANK GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Georgian Lari)

Assets	**Note**	**31.12.2023**	**31.12.2022**
Cash and cash equivalents	7	44,130,913	65,466,492
Mandatory reserve with the NBG	8	19,775,806	21,536,653
Loans to customers	9	130,994,486	97,290,008
Investment securities	10	5,389,584	1,986,530
Other assets		620,768	740,166
Intangible assets		871,005	976,799
Right-of-use assets	11	668,296	932,208
Property and equipment	12	4,098,128	4,683,369
Total assets		**206,548,986**	**193,612,225**
Liabilities and equity			
Liabilities			
Amounts due to credit institutions	13	23,560,520	10,349,188
Customer accounts	14	104,189,821	111,263,109
Lease liabilities	11	624,317	894,166
Deferred tax liability	20	37,232	547,855
Provision for guarantees issued		190,116	40,606
Other liabilities	15	1,091,811	1,190,921
Total liabilities		**129,693,817**	**124,285,845**
Equity			
Share capital	16	50,000,000	50,000,000
Retained earnings		26,855,169	19,326,380
Total equity		**76,855,169**	**69,326,380**
Total liabilities and equity		**206,548,986**	**193,612,225**

The financial statements for the year ended 31 December 2023 were approved on behalf of the management on 15 May 2024 by:

General director	______________________	Omer Aydin
Chief accountant	______________________	Mariam Khaduri

Notes on pages 9-47 are an integral part of these financial statements.

JSC ZIRAAT BANK GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Georgian Lari)

Assets	Note	31.12.2023	31.12.2022
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The financial statements for the year ended 31 December 2023 were approved on behalf of the management on 15 May 2024 by:

General director Omer Aydin

Chief accountant Mariam Khaduri

Notes on pages 9-47 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Georgian Lari)

	Note	2023	2022
Interest income	17	16,514,983	12,766,951
Interest expense	17	(2,887,012)	(1,229,569)
Net interest income		**13,627,971**	**11,537,382**
Change in provision for loan impairment	9	549,798	(926,136)
Net interest income after provision for loan impairment		**14,177,769**	**10,611,246**
Fee and commission income	18	1,819,280	1,445,667
Fee and commission expense	18	(1,627,705)	(1,309,738)
Income from foreign currency trading		1,693,787	2,338,157
Other income		199,023	33,243
Non-interest income		**2,084,385**	**2,507,329**
General and administrative expenses	19	(7,325,354)	(6,436,309)
Change in provision for guarantees issued		(149,510)	12,291
Foreign exchange gain, net		2,695	25,660
Profit before tax		**8,789,985**	**6,720,217**
Income tax expense	20	(1,261,196)	(928,769)
Total comprehensive income for the year		**7,528,789**	**5,791,448**

Notes on pages 9-47 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

(Georgian Lari)

	Note	2023	2022
Cash flows from operating activities			
Profit before tax		8,789,985	6,720,217
Adjustments for:			
Depreciation and amortization		1,303,209	1,078,116
Disposal of intangible assets		-	2,645
Net change in provision for impairment		(400,288)	913,845
Discount on investment securities		(513,960)	(109,798)
Cash inflows from operating activities before changes in working capital		**9,178,946**	**8,605,025**
Interest income		(1,971,361)	(1,064,865)
Interest expense		554,240	231,947
Decrease/(Increase) in mandatory reserve with the NBG		1,760,847	(3,381,281)
Increase in loans to customers		(31,183,319)	(593,996)
Decrease/(Increase) in other assets		119,398	(59,231)
(Decrease)/Increase in customer accounts		(7,513,115)	37,140,231
Increase in other liabilities		(713,285)	(1,699,492)
Increase/(decrease) in amounts due to credit institutions		13,096,920	(1,422,429)
Cash used in/ (from) operations		**(16,670,729)**	**37,755,909**
Income taxes paid		(1,058,790)	(285,518)
Net cash (used in)/ from operating activities		**(17,729,519)**	**37,470,391**
Investing activities			
Purchase of property and equipment and intangible assets		(255,337)	(1,174,339)
Purchase of investment securities		(10,502,094)	(2,924,301)
Redemption of investment securities		7,613,000	3,000,000
Net cash used in investing activities		**(3,144,431)**	**(1,098,640)**
Financing activities			
Principal paid on lease liability		(389,210)	(299,327)
Interest paid on lease liabilities		(72,419)	(70,681)
Net cash used in financing activities		**(461,629)**	**(370,008)**
Net increase/ (decrease) in cash and cash equivalents		**(21,335,579)**	**36,001,743**
Cash and cash equivalents at beginning of year	**7**	**65,466,492**	**29,464,749**
Cash and cash equivalents at end of year	**7**	**44,130,913**	**65,466,492**

Notes on pages 9-47 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

(Georgian Lari)

	Share capital	Retained earnings	Total equity
31.12.2021	**50,000,000**	**13,534,932**	**63,534,932**
Total comprehensive income of the year	-	5,791,448	**5,791,448**
31.12.2022	**50,000,000**	**19,326,380**	**69,326,380**
Total comprehensive income of the year	-	7,528,789	**7,528,789**
31.12.2023	**50,000,000**	**26,855,169**	**76,855,169**

Notes on pages 9-47 are an integral part of these financial statements.

1. General information

Ziraat Bank Tbilisi Branch was incorporated in 1998. In 2017, the Company has received a banking license and continued operating as "Ziraat Bank Georgia" (hereinafter the "Bank").The Bank is a joint stock company and was set up in accordance with Georgian regulations.

The Bank accepts deposits from the individuals and corporate clients and extends credit and guarantees, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its customers.

The Bank is registered at the following address: Georgia. Tbilisi, Mtatsminda district, Zviad Gamsakhurdia embankment N 100. The Bank with its service centers in Tbilisi, Batumi, Marneuli and Kutaisi operates under a general banking license issued by National Bank of Georgia. (The NBG).

As at 31 December 2023 and 2022, JSC Ziraat Bank Turkey represents shareholder owning 100% of the shares of the Bank. Ultimate sole shareholder of the Bank is the Turkish Wealth Fund.

Average annual number of employees of the Bank (Fixed contracts) by category is presented as follows:

	2023	2022
Top management	4	4
Middle managers	16	18
Other employees	38	36

The Bank had no temporary employment contracts during 2023 and 2022 years.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB).

The Bank prepares financial statements in Georgian Lari. The financial statements have been prepared on the historical cost basis. The reporting period for the Bank is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying The Bank's accounting policies, which has significant influence on the book values of assets and liabilities, income and expense recognized in profit and loss of the year. Factual results may be different from the current estimates. Adjustments, resulting from the changes in accounting estimates belong to the period when they are recognized. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

Summary of significant accounting policies used for preparing these financial statements are explained in Note 3.

Going concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Bank in Georgia. The management believes that the going concern assumption is appropriate for the Bank.

In adopting the going concern basis for preparing the financial statements, the Management have considered the bank's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance.

JSC Ziraat Bank (Turkey), a state-owned bank, represents 100% owning shareholder of the Bank. As at 31 December 2023 and 2022 the Bank has significant transactions with its shareholder including deposits placed in Bank.

Management confirm that they have a reasonable expectation that the Bank, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

2. Basis of preparation (Continued)

Changes in accounting policies

A) Standards and Amendments Mandatorily Effective from 1 January 2023:

IFRS 17 Insurance Contracts. IFRS 17 introduces an internationally consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. The new standard takes the view that insurance contracts combine features of a financial instrument and a service contract, and that many generate cash flows that vary substantially over time. It therefore takes the approach of:

• Combining current measurement of future cash flows with recognising profit over the period that services are provided under the contract

• Presenting insurance service results (including insurance revenue) separately from insurance finance income or expenses, and

• Requiring an entity to make an accounting policy choice for each portfolio whether to recognise all insurance finance income or expenses for the reporting period in profit or loss, or to recognise some in other comprehensive income.

Subsequent to the issue of IFRS 17, amendments to the standard and deferral of effective dates have been made.

Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2). In February 2021, the IASB issued amendments to IAS 1, which change the disclosure requirements with respect to accounting policies from 'significant accounting policies' to 'material accounting policy information'. The amendments provide guidance on when accounting policy information is likely to be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-mandatory guidance, no mandatory effective date has been specified for the amendments to IFRS Practice Statement 2.

Definition of Accounting Estimates (Amendment to IAS 8). In February 2021, the IASB issued amendments to IAS 8, which added the definition of Accounting Estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from correction of prior period errors.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). In May 2021, the IASB issued amendments to IAS 12, which clarify whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability being recognised simultaneously (e.g. a lease in the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability which at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

According to the assessment of the Company's management, these changes will not have a significant impact on the Company's financial statements.

B) NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE:

Standards and Amendments Mandatorily Effective from 1 January 2024

Supplier Finance Arrangements (Amendment to IAS 7 and IFRS 7). On 25 May 2023, the IASB issued Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures (the Amendments). These Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures. In December 2020, the Committee published an Agenda Decision Supply Chain Financing Arrangements—Reverse Factoring that addressed this submission based on the requirements in IFRS Accounting Standards existing at that time. During this process, the feedback from stakeholders indicated limitations of the then existing requirements to address important information needs of users to understand the effects of supplier finance arrangements on an entity's financial statements and to compare one entity with another. In response to this feedback, the IASB undertook a narrow-scope standard setting, leading to the Amendments. The Amendments require entities to provide certain specific disclosures (qualitative and quantitative) related to supplier finance arrangements. The Amendments also provide guidance on characteristics of supplier finance arrangements.

2. Basis of preparation (continued)

Lease Liability in a Sale and Leaseback (Amendment to IFRS 16). The IFRS Interpretations Committee issued an agenda decision in June 2020 – Sale and leaseback with Variable Payments. This matter was referred to the IASB for standard setting for some aspects. The IASB issued the final amendments in September 2022. The Amendments provide a requirement for the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that the sellerlessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

Classification of Liabilities as Current or Non-Current (Amendment to IAS 1). The IASB issued amendments to IAS 1 - Classification of Liabilities as Current or Non-current in January 2020, which have been further amended partially by amendments Non-current Liabilities with Covenants issued in October 2022. The amendments require that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement for at least twelve months after the reporting period. As a result of the COVID-19 pandemic, the Board deferred the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2024.

Amendment – Noncurrent Liabilities with Covenants (Amendment to IAS 1). Subsequent to the release of amendments to IAS 1 Classification of Liabilities as Current or Non-Current, the IASB amended IAS 1 further in October 2022. If an entity's right to defer is subject to the entity complying with specified conditions, such conditions affect whether that right exists at the end of the reporting period, if the entity is required to comply with the condition on or before the end of the reporting period and not if the entity is required to comply with the conditions after the reporting period. The amendments also provide clarification on the meaning of 'settlement' for the purpose of classifying a liability as current or non-current.

According to the assessment of the Bank's management, these changes will not have a significant impact on the Company's financial statements.

C) STANDARDS AND AMENDMENTS MANDATORILY EFFECTIVE FROM 1 JANUARY 2025

Lack of Exchangeability (Amendment to IAS 21) On 15 August 2023, the IASB issued Lack of Exchangeability which amended IAS 21 The Effects of Changes in Foreign Exchange Rates (the Amendments). The Amendments arose as a result of a submission received by the IFRS Interpretations Committee (the Committee) about the determination of the exchange rate when there is a long-term lack of exchangeability. IAS 21, prior to the Amendments, did not include explicit requirements for the determination of the exchange rate when a currency is not exchangeable into another currency, which led to diversity in practice. The Committee recommended that the IASB develop narrow-scope amendments to IAS 21 to address this issue. After further deliberations, the IASB issued an exposure draft of the proposed amendments to IAS 21 in April 2021 and the final amendments were issued in August 2023. The Amendments introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The Amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency.

Other

The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

3. Significant accounting policies

Foreign currency translation

a) Functional and presentation currency

Items included in the financial Statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). Financial Statements are presented in Georgian lari, which is the Bank's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3. Significant accounting policies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within "Exchange rate gain/ (loss), net".

The closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	***EUR***
Exchange rate as at 31.12.2023	2.6894	2.9753
Exchange rate as at 31.12.2022	2.7020	2.8844

Financial Instruments

Financial assets

Initial measurement of financial assets

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Financial assets- Classification and subsequent measurement

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

- Amortised cost;
- FVOCI;
- FVPL.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. The Bank classifies all the of its financial assets under "Financial assets measured at amortized cost" category.

The Bank only measures amounts due from credit institutions, loans to customers and other financial assets at amortised 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;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- 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.

3. Significant accounting policies (Continued)

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 realised 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.

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 purpose 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 amortisation 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.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

Impairment – credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

All of the exposures that are not subject to individual impairment assessment (see Note 4 - Individual assessment of impairment) are assessed collectively.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition:

Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");

Stage 2: If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1.

Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Bank's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 5.

Change in ECL is recognized in statement of comprehensive income with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

3. Significant accounting policies (Continued)

Financial assets – derecognition and modification

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa.

Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no schedule is replaced with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset is not substantially (10% test) different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial liabilities

Financial liabilities are classified as subsequently measured at AC. Other financial liabilities include: Amounts due to credit institutions, customer accounts, lease liabilities and other liabilities.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory cash balances, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

3. Significant accounting policies (Continued)

Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Bank's day to day operations. Hence, they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Investment securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch. All the investment securities possessed by the Bank are held for the specified period and are carried at amortized cost.

Financial guarantees

Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition.

Taxation

The current income tax expense is calculated in accordance with the regulations of Georgia. It represents the sum of the current and deferred tax expenses. 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 amounts 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 that have been enacted or substantively enacted at the reporting date.

Georgia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of general and administration expenses.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and impairment losses, where required.

Land is not depreciated. Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives.

Group	Useful lives
Buildings	50
Computers and office equipment	4
Furniture	6
Leasehold improvement	5
Other	4-5

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Losses arising from the retirement of property and equipment are included in profit or loss as incurred.

3. Significant accounting policies (Continued)

Intangible assets

The Bank's intangible assets have definite useful lives and primarily include computer software and licenses. Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses, if any. The estimated useful lives and amortization method is reviewed at the end of each annual reporting period and adjusted if needed. Useful lives of the intangible assets of the Bank is determined as 10 Years.

Amounts due to credit institutions

Amounts due to credit institutions are recorded when counterparty banks advance money or other assets to the Bank. Amounts due to credit institutions represent non-derivative liabilities and are carried at AC.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Share capital

Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

Recognition of income and expenses

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired. 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 income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets 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 income 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 be divided into the following categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied.

- *Fee income earned at a point in time*

Fees arising from settlement, remittances, bill payments and cash operations are recognized upon completion of underlying transactions. Each operation is treated as a separate performance obligation.

Contingent Liabilities and Contingent Assets, Provisions

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured.

3. Significant accounting policies (Continued)

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is probable. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Leases

Bank as lessee

Identifying the lease

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Bank assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

Initial recognition

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognized on the Bank's balance sheet as follows:

- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Bank's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Bank if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

At the commencement date, the Bank measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Bank revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

3. Significant accounting policies (Continued)

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Bank renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Bank elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Bank. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Bank reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee 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 in a similar economic environment.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Bank applies the recognition exemption for short-term leases (i.e., lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Staff costs and related contributions

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

3. Significant accounting policies (Continued)

Events after the reporting period

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about the Bank's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Bank at the balance sheet date are disclosed in the Notes to the financial statements when material.

4. Critical accounting estimates and judgments

The Bank makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Expected credit loss allowance (ECL)

Measurement of ECL is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied, and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 3 and 5.

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

The following components have a major impact on credit loss allowance: definition of significant increase in credit risk (SICR), definition of default, probability of default ("PD"), exposure at default ("EAD"), loss given default ("LGD"), as well as models of macro-economic scenarios.

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;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP Growth, Inflation rate or collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Bank regularly reviews its loans to assess for impairment and uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers. Management uses probability estimates based on historical borrower experience including default familiarities and loss given defaults. The Bank uses its experienced judgment to adjust observable data for a bank of homogenous loans to reflect current circumstances and forward-looking macroeconomic variables.

Taxation

Tax legislation in Georgia is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as at 31 December 2022 and 2021 its interpretation of the relevant legislation is appropriate, and that the Bank's tax position will be sustained.

5. Financial instruments – risk management

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk, operational risk and other non-financial risks. The risk management framework adopted by the Bank sets the boundaries of risk bearing capacity for each risk and business line and ensures its compliance.

The Supervisory Board of the Bank has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Supervisory Board has established committees, which are responsible for developing and monitoring Bank risk management policies in relevant specified areas, which are communicated through Risk Appetite Statement (RAS).

The responsibility of the individuals responsible for risk management is to ensure the compliance of the Bank to the Risk Appetite Statement (“RAS”) set by the Supervisory Board of the Bank. The compliance is ensured by continuous monitoring of the RAS parameters and proposing any changes to these parameters when circumstances change. The Enterprise Risk Management (“ERM”) Division has the overall responsibility for monitoring of the RAS set by the Supervisory Board.

RAS establishes escalation routes for trigger events and limits breaches in order to timely and effectively initiate and implement pre-defined mitigation actions. For the purposes of effective inclusion into daily activities of the Bank, RAS parameters are detailed into more granular business unit and transactional levels.

With the active involvement of Management Board risk management functions ensure proper communication and clarity at all levels regarding risk objectives, constant monitoring of risk profile against risk appetite, timely escalation of risk-related alerts and design of mitigating actions.

The Bank’s risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its management standards, procedures and trainings aims, has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Audit Committee

The Audit Committee is a significant element of the Bank's corporate governance system. The Audit Committee supervises the activities of the Internal Audit Department, develops appropriate recommendations for this service and protects the interests of shareholders in terms of the reliability of financial statements. The Audit Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit function, which examines, by undertaking regular and ad-hoc reviews, both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with the Management Board, and reports its findings and recommendations to the Audit Committee.

Other structural units

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. Risk Appetite metrics are set by the Supervisory Board and monitored by the following committees and units with the active involvement of Management Board:

- Credit risk is managed by the Credit Committees;
- Liquidity risk is managed by Asset-Liability Committee (“ALCO”);
- Market risk is managed by ALCO;
- Operational risk is managed by the Risk Management Department with close cooperation of Management Board;
- Information security and technology risks are managed by Information Technology Department.

5. Financial instruments – risk management (Continued)

Credit risk

The Bank is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Bank's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values.

For maximum exposure on off-balance sheet commitments refer to Note 5 – Liquidity risk.

Credit risks include: risks arising from transactions with counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality;
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries;
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Bank's portfolio;
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral.

Credit Approval

The Bank strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan;

The Credit Committees are established by the decision of supervisory board and the choosing of members occurs by the following persons: General director, deputy managing director, director, risk manager.

The credit committee is responsible for overseeing loan requests and approving credit products. Credit risk managers (respective credit committee members) conduct detailed analysis of debtors and proposed credit risks. If the total liability exceeds equivalent to USD750,000, final decision regarding the issuance of loan is made by the supervisory board, but if the total liability does not exceed USD750,000, the decision is made by the credit committee.

Segmentation

Segmentation criteria are based on credit risk characteristics and expert judgment depending on the data availability and homogeneity of historical information. The set of instrument attributes used in the analysis can be reconsidered over time depending on the emergence of new information and sufficiency of accumulated data.

Segmentation of the loan portfolio consists of the following sub-segments:

1) Segment 1 – "Mortgage";
2) Segment 2 – „Consumer loan";
3) Segment 3,4 – "Corporate" and SME (Small and medium entities);

Credit Risk Monitoring

The Bank's risk management policies and processes are designed to identify and analyze risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Bank dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments.

Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile.

By comparing current data with historical figures and analyzing forecasts, the management believes that it is capable identifying risks and responding to them by amending its policies in a timely manner.

5. Financial instruments – risk management (Continued)

Credit Risk Mitigation

Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Bank uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The collateral management framework consists of a sound independent appraisal process, haircut system throughout the underwriting process, monitoring and revaluations.

Credit Risk Restructuring and Collection

A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments.

For the measurement of ECL, restructured borrowers may be classified either in Stage 2 or Stage 3. If overdue days after restructuring consists of more than 30 days, the loan is classified in stage 3. If overdue days consists of not less than 30 days, then the loan is classified in stage 2 and automatically gets the code that represents +31 Days on current overdue days. If the restructured borrower has completed the restructuring probation period of at least 1 year successfully, it'll be classified as stage 1 credit risk financial instrument and will no longer be classified as restructured.

Credit Quality

Depending on the type of financial asset the Bank may utilize different sources of asset credit quality information including credit scoring information from credit bureau and internally developed credit ratings.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

All of the exposures that are not subject to individual impairment assessment (see Individual assessment of impairment) are assessed collectively.

The Bank uses a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not credit-impaired when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition, but the financial instrument is not considered credit-impaired. The exposures for which the credit-impaired indicators have been identified are classified as Stage 3 instruments.

The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument.

Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

Definition of default

Definition of default, as used in IFRS 9 for impairment purposes, is consistent with the definition used for the internal credit risk management and includes all financial instruments of the Bank.

The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Distressed Restructuring (Cooling) - the exposure is more than 30 days past due after the 1st restructuring date;
- If restructuring was made without financial analysis;
- When NBG solvency Ratios are breached (PTI, DSCR, DEBT/EBITDA);

5. Financial instruments – risk management (Continued)

- Qualitative SICR criteria, which signals impairment of financial instrument.

Moreover, the Bank may apply other expert indicators of unlikeliness to pay (UTP) if there are any.

All general default criteria are applied to all financial instruments, regardless of its classification to product portfolios or client segments. In the case of UTP criterion, list of specific indicators may vary from one portfolio or segment to another in order to address the specific characteristics of the exposures or data availability constraints.

It should be noted that the Bank equates default and credit-impairment definitions so that all defaulted exposures are treated as credit-impaired and all credit-impaired exposures are treated as defaulted.

Distressed Restructuring (Cooling) - The Bank collects all the information related to all exposures active as at the reporting date, which are delinquent or restructured. In case financial instrument is more than 90 days past due or restructured and full financial analysis were not conducted, the financial instrument is moved to stage 2 if 6 consecutive payments are satisfied, and appropriate credit risk criteria are met. Additional 6 consecutive payments shall be made, in order stage 2 loans to move to stage 1. Analysis covers 6 + 6 consecutive months prior to the reporting days without overdue after restructuring or more than 90 days past due. If the impaired financial instrument successfully pass the probation (cooling) period (6+6 /only 6 months for instruments classified to Stage 3 / Stage 2), then it is allowed to move to stage 1. If the credit quality worsens (>30 overdue days) during the analysed cooling period at least once (or several times), probation period assessment restarts from that point and continues up to the reporting date.

The Bank applies a Probation (Cooling) period analysis procedure starting from the moment of the Impairment under the NBG regulation.

Significant Increase in Credit Risk ("SICR")

For every financial instrument the Bank estimates if credit risk has increased significantly after the initial recognition (Sign of increasing credit risk – "SICR"). To recognize the sign, the Bank for each financial instrument is conducting historical analysis of different factors, including, the factors that are relevant for the specific financial instrument.

Recognizing SICR can be done by the following estimation methods:

- Increasing risk of default after the initial recognition (Changes in direct or external and internal rating);
- Factual or expecting significant change in operational results of the customer;
- Changes in approaches of the management of credit risk for the financial instruments;
- Facts featuring that the Bank is not allowing the current level of the risk according to the date of initial recognition of financial instrument, particularly:
    a) The transaction would never have been done;
    b) The transaction would have been done, but with the different conditions (for compensating the increased risk) and/or implementing uncommon processes (Involving the employee with higher authorization in the process of credit taking);

Group transfer (contamination principles) - Group transfer criteria is also a subject to significant increase in credit risk (SICR) and Default:

- If the exposure for a borrower is considered being in Stage 2 at the reporting date, then the entire exposures towards this borrower or group of borrowers are transferred to Stage 2 at the reporting date;
- If the group exposure for a borrower is considered as defaulted at the reporting date, then the entire exposure towards this borrower (or group of related borrowers) are transferred to Stage 3 at the reporting date.

The indicator of group exposure transfer to Stage 2 / Stage 3 is based on overdue days as wells as any SICR indicators. Thus, the Bank assumes a 100% relationship between exposures within the same group unless it is otherwise shown through individual analysis. If different loans belonging to the same borrower or group of borrowers are assigned different credit risk categories, statistical or individual analysis shall be performed, demonstrating that the risk factors are not pervasive enough to cause SICR since initial recognition or impairment in other instruments with lower credit category.

5. Financial instruments – risk management (Continued)

Exposure at default (EAD)

Default risk position parameter represents a total risk position that a bank is exposed to in the period that default is considered to happen. EAD parameter, used to measure expected credit loss, depends on time. The bank allows for use of different values of the parameter for different, future credit risk positions.

Exposure at default (EAD) parameter is used for all financial instruments at the 1st and 2nd stages (including non-defaulted purchases or impaired financial assets), regardless of specific characteristics, including the existence of predefined repayment schedule. In the case of financial instruments at the 3rd stage (and in case of assets purchased at default or impaired financial assets), single EAD parameter is used, which equals the current default risk position. The current default risk position represents the amount, that is calculated based on risk position balances as at reporting date.

Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts.

The term probability of default is not unambiguous according to the prevailing market practice, therefore for the avoidance of doubt, the following definitions are introduced in addition to abovementioned:

- MPD - marginal probability of default, i.e. the probability that the performing contract defaults during particular time period and exactly in this time period provided that it has survived until the beginning of this period;
- PD - conditional probability of default, i.e. the probability that the performing contract defaults during particular period.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Bank uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

PD assessment approach is differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period. Macroeconomic variables covered by these forecasts and which the Bank incorporated in its ECL assessment model include GDP growth, monetary policy interest rate, nominal effective foreign exchange rate and inflation rate.
The Bank considers these forecasts to represent its best estimate of the possible outcomes, based on reliable available information.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2023 for the years 2024 and 2025, for Georgia:

	2024	2025
GDP Growth		
Base scenario	5.0	4.5
Upside scenario	6.5	5.5
Downside scenario	3.0	4.0
Inflation rate		
Base scenario	3.6	3.1
Upside scenario	3.3	3.0
Downside scenario	5.0	4.0
Monetary policy interest rate		
Base scenario	8.8	7.8
Upside scenario	7.8	7.0
Downside scenario	9.3	8.5
Nominal effective exchange rate		
Base scenario	409.3	409.3
Upside scenario	417.5	423.8
Downside scenario	368.4	368.4

5. Financial instruments – risk management (Continued)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years, for PD and LGD purposes, respectively. Based on this analysis, the Bank identified portfolio default key relationship with GDP growth.

The Bank has performed a sensitivity analysis on how ECL on the main portfolios would change if the key assumptions used to calculate ECL change by 10%. The table below outlines the total ECL per portfolio as at December 31, 2023, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 10%. The changes are applied in isolation for illustrative purposes and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Increase in GDP	ECL
As at financial position (Note 8)	(2,134,634)
ECL expected +10%	(2,136,971)
ECL expected -10%	(2,136,985)

PC estimation – Probability of conversion parameter describes the likelihood that the guarantee or letter of credit will be converted to a loan, i.e. will be considered defaulted, over a particular time horizon. The PC parameter is considered constant or time-dependent according to the available number of observations in the respective estimation sample. The Bank proceeds the historical data reliability on the yearly basis, whereat the PC calculation approach is specified. The PC estimation simplifications (e.g. constant parameter calculation) are specified by the Bank based on the reasonable and supportable grounding.

Since the fact of guarantee-to-loan conversion (i.e. the call upon guarantee or letter of credit and further conversion into a loan) is perceived as the trigger for Stage 3 classification of the corresponding loan PC parameter is applied to all uncalled guarantees and letters of credit.

Loss Given Default (LGD)

Loss given default is shown as a percentage of losses incurred after a borrower defaults, over total exposure at the time of the default.

In case of a default, the process of loss estimation is based on an assumption, that after default, the loan retains default status and is in the process of recover (non-cure assumption).

This assumption is based on a complete restoration in case of retail segment, however in case of corporate/small and medium business segments this can be additionally of differentiated as cash and cash equivalents and restoration of collateral.

The possibility of inclusion of restoration of collateral in loan default is dependent on availability of cash receiving procedures and historical data.

Non-defaulted loan position

LGD parameter, designed for sub-portfolios of homogeneous non-defaulted risk position is dependent on time, in other words it is characterized by a time structure. This gives Bank more flexibility in designing LGD parameter, since the parameter refers to the time section in which the default may occur.

Exposure on default

LGD parameter of a defaulted risk position is not subject to a time structure, due to the fact that the risk position is already in default. The following method is characterized by specific restoration methods. According to general LGD norms, macroeconomic factors are considered under following sections:

- Correction of restoration norms;
- Correction of restoration and restoration norms, and value of collateral of a secured portfolio;

Individual assessment of impairment

Reasonable threshold for defining individually significant financial assets is established by taking into consideration cumulative exposures by borrowers and groups of borrowers within portfolio. If the instrument is classified as Stage 1 credit risk category and its outstanding amount is more than 1% (in case of Stage 2 or Stage 3 exposures 0.5%) of the Tier 1 capital, the instrument can be considered as individually significant.

5. Financial instruments – risk management (Continued)

ECL of individually significant financial instruments is estimated on a collective basis for instruments which belong to stage 1 or stage 2 credit risk category.

If an asset identified as individually significant is categorized as Stage 3 credit risk, all other exposures towards the borrower or group of borrowers is also assessed as individually significant.

Forecasted information

While estimating credit risk, bank considers forecasted, macroeconomic factors, based on analysis of various situations. These situations include most likely, worse than likely and better than likely outcomes, with respective probabilities.

The situations mentioned above take into account the macroeconomic factors, that are published by the national bank of Georgia. Macroeconomic forecasted information for impairment basis is used for the following purposes:

1) Determining financial instruments, for which credit risk has significantly increased after initial recognition (Is valid only in the cases, where the bank for specific instruments or groups of instruments accounts for ongoing significant economic changes);
2) Determining expected credit losses by assessing various possible conditions of economic environment;

While estimating a significant increase in credit risk, bank considers the probability of a default, which represents expected risk of default in case of different outcomes and compares the indicators to the values of the indicators at the initial recognition.

While analyzing expected credit risk, the Bank determines the parameters separately, for each different outcome and gets the final value for the expected credit risk, which is later used in the process of loss reserve as a weighted probability where the weights are represented by the probabilities for individual, various outcomes.

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 categories specified in the tables.

As at 31 December 2023	Stage	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents (except cash on hand)		38,002,736	-	-	-	**38,002,736**
Mandatory reserve with the NBG		19,775,806	-	-	-	**19,775,806**
Investment securities		5,389,584	-	-	-	**5,389,584**
Loans to customers:						
Business loans	Stage 1	42,769,693	25,180,290	-	-	**67,949,983**
Business loans	Stage 2	715,046	233,641	8,477,481	-	**9,426,168**
Business loans	Stage 3	239,849	-	540,083	1,558,520	**2,338,452**
Business loans Corporate	Stage 1	-	41,185	-	-	**41,185**
Business loans Corporate	Stage 2	4,099,126	-	-	-	**4,099,126**
Credit Line	Stage 1	16,617,277	7,567,907	-	-	**24,185,184**
Credit Line	Stage 2	2,123,212	5,490,779	1,518,169	-	**9,132,160**
Credit Line	Stage 3	516,460	808,790	-	247,134	**1,572,384**
Mortgage loan	Stage 1	6,986,982	1,843,957	-	-	**8,830,939**
Mortgage loan	Stage 2	-	-	215,695	-	**215,695**
Mortgage loan	Stage 3	-	-	-	444,724	**444,724**
Consumer loans	Stage 1	3,212,466	1,258,098	-	-	**4,470,564**
Consumer loans	Stage 2	13,179	-	369,358	-	**382,537**
Consumer loans	Stage 3	-	-	-	40,019	**40,019**
Guarantees	Stage 1	45,817,978	-	-	-	**45,817,978**
		186,279,394	**42,424,647**	**11,120,786**	**2,290,397**	**242,115,224**

5. Financial instruments – risk management (Continued)

As at 31 December 2022	Stage	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents (except cash on hand)		58,939,451	-	-	-	**58,939,451**
Mandatory cash balances with the NBG		21,536,653	-	-	-	**21,536,653**
Investment securities		1,986,530	-	-	-	**1,986,530**
Loans to customers:						
Business loans	Stage 1	28,010,856	19,607,743	-	-	**47,618,599**
Business loans	Stage 2	-	-	535,087	-	**535,087**
Business loans	Stage 3	340,280	1,190,472	-	1,060,605	**2,591,357**
Business loans Corporate	Stage 1	-	169,218	-	-	**169,218**
Business loans Corporate	Stage 3	4,740,505	-	-	-	**4,740,505**
Credit Line	Stage 1	21,121,246	12,431,468	-	-	**33,552,714**
Credit Line	Stage 2	-	-	154,713	-	**154,713**
Credit Line	Stage 3	217,196	271,081	-	67,468	**555,745**
Mortgage loan	Stage 1	3,677,261	1,629,407	-	-	**5,306,668**
Mortgage loan	Stage 2	-	-	405,772	-	**405,772**
Mortgage loan	Stage 3	-	-	-	600,956	**600,956**
Consumer loans	Stage 1	2,925,681	751,090	-	-	**3,676,771**
Consumer loans	Stage 3	-	-	-	66,335	**66,335**
Guarantees	Stage 1	33,919,640	-	-	-	**33,919,640**
		177,415,299	**36,050,479**	**1,095,572**	**1,795,364**	**216,356,714**

The credit risk assessment policy for financial assets has been determined by the Bank for balance sheet exposures as follows:

- A financial asset that is not past due at the reporting date is assessed as a financial asset with high grade;
- A financial asset that is less than 30 days past due at the reporting date is assessed as a financial asset with standard grade;
- A financial asset that is past due more than 30 days and less than 90 days past the reporting date is assessed as a financial asset with sub-standard grade.

The credit risk assessment policy for financial assets has been determined by the Bank for balance sheet exposures as follows:

- Grading for Undrawn loan commitments for clients, who have loans or any other balance sheet exposures are in line with balance sheet grade. For other undrawn loan commitments, conditional undrawn loan commitments are considered to be High grade. Unconditional undrawn loan commitments are graded in line with clients' credibility monitored by the Bank's experts.
- Financial guarantees are considered High grade if the client performs under contractual conditions. If the client performs well under the contract, it is classified as standard grade, while poor performance is considered sub-standard and breach of contract impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business 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.

5. Financial instruments – risk management (Continued)

Financial guarantees and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

For impairment allowance assessment purposes for undrawn exposures the Bank distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Bank does not create impairment allowance. As for the irrevocable undisbursed exposures the Bank estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Market risk

Market risk is the risk that affect the overall performance of the financial market. The main types of market risks include interest rates risk, currency risk and their levels of volatility. The market risk related to the banking activities encompasses the risk of loss on equity holdings, and the interest rate and foreign exchange risk stemming from banking intermediation activities. The Bank is exposed to interest rate and foreign exchange risks in its banking books.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, due to re-pricing or maturity period characteristics of financial instruments. The Bank is exposed to interest rate risk in case of material drop in interest rates from competitors on loan products or rise in the cost of funds due to macro and Bank specific events. The Bank’s deposits and loans are at fixed interest rates.

Currency risk

Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank’s regulatory capital.

As at 31 December 2023, the Bank maintained an aggregate open currency position of -0.61% of regulatory capital (2022: -0.99%). The Bank’s compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

The Bank has approved Foreign Currency Risk Management Policy, which is intended to establish parameters for the Bank for the management of foreign currency exposures. The process of foreign currency risk management includes, but is not limited to:

- Selection of adequate methodology for foreign currency risk identification and quantitative measurement;

- Daily monitoring of the open foreign currency position;

- Minimizing currency risk through compliance with established limits;

- Revealing existing and anticipated negative tendencies of increased currency risk followed by the analysis of its causes and implications;

- Making recommendations on the currency risk management strategy;

- Determining the types and limits on instruments used in the foreign currency risk operations.

5. Financial instruments – risk management (Continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the GEL, with all other variables held constant on the statements of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

Financial assets	**GEL**	**USD**	**EUR**	**OTHER**	**31.12.2023**
Cash and cash equivalents	9,925,902	28,045,057	5,883,969	275,985	**44,130,913**
Mandatory cash balances with the NBG	-	17,740,686	2,035,120	-	**19,775,806**
Loans to customers before allowance for impairment	82,503,542	49,024,245	1,601,333	-	**133,129,120**
Investment securities	5,389,584	-	-	-	**5,389,584**
Other financial assets	284,976	38,134	8,683	1,551	**333,344**
	98,104,004	**94,848,122**	**9,529,105**	**277,536**	**202,758,767**
Financial liabilities					
Customer accounts	25,203,376	69,421,392	9,500,628	64,425	**104,189,821**
Amounts due to credit institutions	-	23,560,520	-	-	**23,560,520**
Lease liabilities	302,070	322,247	-	-	**624,317**
Other financial liabilities	721,627	47,151	-	-	**768,778**
	26,227,073	**93,351,310**	**9,500,628**	**64,425**	**129,143,436**
Open balance sheet position	**71,876,931**	**1,496,812**	**28,477**	**213,111**	

Financial assets	**GEL**	**USD**	**EUR**	**OTHER**	**31.12.2022**
Cash and cash equivalents	27,319,054	34,571,696	3,351,056	224,686	**65,466,492**
Mandatory cash balances with the NBG	-	19,832,045	1,704,608	-	**21,536,653**
Loans to customers before allowance for impairment	57,344,963	41,653,477	976,000	-	**99,974,440**
Investment securities	1,986,530	-	-	-	**1,986,530**
Other financial assets	243,808	24,943	2,698	2,285	**273,734**
	86,894,355	**96,082,161**	**6,034,362**	**226,971**	**189,237,849**
Financial liabilities					
Customer accounts	18,715,454	86,355,696	5,877,587	314,372	**111,263,109**
Amounts due to credit institutions	-	10,153,754	109,836	85,598	**10,349,188**
Lease liabilities	502,802	391,364	-	-	**894,166**
Other financial liabilities	878,528	94,853	58,753	8,769	**1,040,903**
	20,096,784	**96,995,667**	**6,046,176**	**408,739**	**123,547,366**
Open balance sheet position	**66,797,571**	**(913,506)**	**(11,814)**	**(181,768)**	

Currency risk sensitivity analyze

The following table details the Bank's sensitivity to a 20% increase and decrease in the USD, EUR and other currencies against the GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

5. Financial instruments – risk management (Continued)

Impact on net profit and equity based on asset values:

31.12.2023	**USD impact**		**EUR impact**		**Other currency impact**	
	20%	-20%	20%	-20%	20%	-20%
Profit/(loss)	299,362	(299,362)	5,695	(5,695)	42,622	(42,622)
31.12.2022	**USD impact**		**EUR impact**		**Other currency impact**	
	20%	-20%	20%	-20%	20%	-20%
Profit/(loss)	(182,701)	182,701	(2,363)	2,363	(36,354)	36,354

Liquidity risk

The liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the Asset-Lability Committee.

The Bank's approach to mitigate liquidity risk are procedures, policies, limits and daily management, that is in compliance with the risk appetite, risk and business strategy of the Bank.

The main liquidity risk mitigation techniques are building liquidity reserves, diversifying funding sources and extending financing maturities.

Statutory requirement

Approved and published on 15 May 2017 by the NBG (Decree N70/04), liquidity coverage ratio (LCR) regulation, became effective on 1 September 2017. The LCR is calculated following Basel III framework, however, higher run-off rates apply. The NBG requires all banks to maintain the LCR of 75.0% in GEL, and LCR of 100.0% in foreign currency and total LCR of 100% on a daily basis.

As at 31 December 2023, the Bank's total LCR stood at 124.4% (2022: 158.73%), the LCR in GEL was 125.50% (2022: 348.04%) and the LCR in foreign currency was 124.1% (2022: 124.49%).

Analysis by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities as at 31 December 2023 and as at 31 December 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.

	Within one year	**More than one year**	**Total 31.12.2023**
Financial liabilities			
Customer accounts	103,299,986	889,835	**104,189,821**
Amounts due to credit institutions	23,560,520	-	**23,560,520**
Lease liabilities	348,168	346,526	**694,694**
Other financial liabilities	768,778	-	**768,778**
	127,977,452	**1,236,361**	**129,213,813**
Undrawn loan commitments	11,578,845	1,131,705	**12,710,550**
Guarantees	26,543,145	19,274,833	**45,817,978**
Total potential future payments for financial obligations	**38,121,990**	**20,406,538**	**58,528,528**

5. Financial instruments – risk management (Continued)

	Within one year	More than one year	Total 31.12.2022
Financial liabilities			
Customer accounts	104,927,385	6,335,724	**111,263,109**
Amounts due to credit institutions	10,349,188	-	**10,349,188**
Lease liabilities	353,706	640,497	**994,203**
Other financial liabilities	1,040,903	-	**1,040,903**
	116,671,182	**6,976,221**	**123,647,403**
Undrawn loan commitments	6,056,628	174,819	**6,231,447**
Guarantees	12,049,090	21,870,550	**33,919,640**
Total potential future payments for financial obligations	**18,105,718**	**22,045,369**	**40,151,087**

Maturity analysis of assets and liabilities

Treasury Department manages the maturity analysis of assets and liabilities. Modeling of assets and liabilities is necessary where contractual maturity does not adequately reflect the liquidity risk position. The most significant example in this context for the Bank would be current and savings accounts from retail, corporate and municipal and other state entities. Although, contractually, current accounts are repayable on demand and savings accounts at short notice, the Bank's broad base of customers – numerically and by depositor type – helps protect against unexpected fluctuations in balances. Such accounts form a stable funding base for the Bank's operations and liquidity needs.

Term Deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Bank is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The maturity of liabilities is based on the earliest contractual maturity or first call. The portion of current and savings accounts is presented in more than one-year maturity range due to their stability.

Customer deposits diversification by number and type of depositors and the past experience of the Bank indicate 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 the funds outflow in the table on the basis of the statistical data accumulated by the Bank during the previous periods and assumptions made regarding the "permanent" part of current account balances.

Operational risk

Operational risk is defined as the risk of a financial loss resulting from the inadequacy or failure of internal processes, systems or people, or from external events, whether deliberate, accidental or natural occurrences. External events include, but are not limited to fraud, floods, fire, earthquakes and terrorist or hacker attacks.

Credit or market events such as default or fluctuations in value do not fall in the scope of operational risk. Compliance risk is included under operational risk. Compliance risk is the potential that the Bank may incur regulatory sanctions, financial loss and/or reputational damage arising from its failure to comply with applicable laws, rules and regulations. The operational risk does not cover the reputational and strategic risk.

The overall objective of the operational risk management is to identify risks arising from inadequate or failed internal processes, people and systems or from external events and mitigate them where feasible and to the extent economically reasonable.

The Bank conducts the following activities for the reason to manage the operational risk:

- Accounting and reporting incidents;
- Estimation of risk and control
- Conducting and audit of information systems on a regular basis and testing penetrability
- Estimation of risks related to outsourced operations
- Plan of the business continuity and stress-tests

5. Financial instruments – risk management (Continued)

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of respective business lines, with summaries submitted to the Audit Committee and Supervisory Board.

The key mitigation controls the Bank deploys stem from its Operational Risk Profile (ORP) and the RAs at the Supervisory Board. The Bank actively uses corporate insurance to mitigate its operational risks.

IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

All the financial instruments of the Bank are recognized with amortized costs.

For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Cash and cash equivalents, Mandatory cash balances with the National Bank of Georgia, investment securities, lease liabilities are carried at amortized cost which approximates their current fair value.

Loans to customers – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Customer accounts - The estimated fair value of fixed interest rate instruments is based on estimated future cash outflows expected to be paid discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency and maturity of the instrument.

Other financial assets and liabilities – Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

		2023		2022	
	Level	**Book value**	**Fair value**	**Book value**	**Fair value**
Financial assets					
Loans to customers	3	130,994,486	130,207,505	97,290,008	97,710,152
Cash and cash equivalents	1	44,130,913	44,130,913	65,466,492	65,466,492
Mandatory cash balances with the NBG	2	19,775,806	19,775,806	21,536,653	21,536,635
Investment securities	2	5,389,584	5,389,584	1,986,530	1,986,530
Other financial assets	3	333,344	333,344	273,734	273,734
Financial liabilities					
Customer accounts	2	104,189,821	103,853,629	111,263,109	111,032,684
Amounts due to credit institutions	2	23,560,520	23,560,520	10,349,188	10,349,188
Lease liabilities	3	624,317	624,317	894,166	894,166
Other financial liabilities	3	768,778	768,778	1,040,903	1,040,903

6. Capital management

The Bank's capital management objectives consist of ensuring its solvency at all times, complying with the supervisory and internal capital requirements, and maintaining a prudent capital cushion in order to protect the Bank from known (and, to some extent, the unknown) risks.

The Bank's management of its total capital is based on the Internal Capital Adequacy Assessment Process (ICAAP), which represents its main capital management tool. Besides, as an additional capital management tool, the Bank maintains Recovery Plan which includes regulatory capital alert thresholds and recovery strategies.

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

The Bank is in compliance with all internal and external capital requirements for the years 2023 and 2022.

NBG Basel III Capital adequacy ratio

On 18 December 2017, the NBG published and approved amendments in capital adequacy regulation (Decree N100/04), according to which the minimum capital requirement ratios have been revised whereas incorporated Pillar I model and set Capital Conservation, Systemic Risk and Countercyclical buffers (Pillar I Buffers).

At the end of March 2020, NBG introduced an updated supervisory plan for the Georgian banking sector.

Following capital adequacy initiatives were introduced:

- Combined buffer – the conservation buffer requirement of 2.5% of risk-weighted assets has been reduced to 0%;
- Pillar 2 requirements:
  - Currency induced credit risk buffer (CICR) requirement reduced by two-thirds.
  - The phase-in of additional credit portfolio concentration risk buffer (HHI) and net GRAPE buffer requirements on Common Equity Tier 1 (CET1) and Tier 1 capital, planned at the end of March 2020, has been postponed indefinitely; however, the phase-in of additional HHI and GRAPE buffer requirements were postponed till end of March 2021 as subsequently instructed by the NBG.
  - The possibility of fully or partially releasing the remaining requirements of Pillar 2 buffers (HHI, CICR, net GRAPE), if necessary, remains open.
- During the period the banks are allowed to partially or fully use the Pillar 2 and conservation buffers, the banks are restricted to make capital distribution in any form.

As at 31 December 2023 and 2022 Common Equity Tier 1 Capital (CET I), Tier I Capital (Tier I) and Total Capital ratios were set at 4.50%, 6.00% and 8.00% respectively in addition to which the Bank had to maintain Pillar I Buffers and Pillar II requirements.

Capital Conservation and Countercyclical buffers are both set at 0.00% (2022: 0.00%, respectively). Any adjustment of Pillar I Buffers is at NBG's discretion.

On 18 December 2017, the NBG also published and approved Pillar II Requirements in additional to Pillar I Buffers. Pillar II Requirements include the following capital buffers: Unhedged Currency Induced Credit Risk (CICR), Net GRAPE, Credit Portfolio Concentration Risk and Net Stress-Test buffers.

As at 31 December 2023, the Bank had to maintain CICR buffer of 0.58% (As at 31 December 2022 - 0. 36%), primary due to percentage share of foreign currency denominated loans to customers, Credit Portfolio Concentration Risk of 2.70% (HHI Buffer) (2022: 1.93%), Net Grape of 2.9% (2022: 2.9%), and Net Stress-Test buffer of 0.00% for 31 December 2023 and 2022.

6. Capital management (continued)

As at 31 December 2023, under total Basel III requirements the Bank was required to maintain a minimum Total Capital adequacy ratio of 15.85% (2022: 13.19%) of the risk-weighted exposures (RWE), minimum Tier 1 Capital adequacy ratio of 12.30% (2022: 9.17%) of the RWE and Common Equity Tier 1 Capital adequacy ratio of 9.63% (2022: 6.87%) of the RWE computed based on the Bank's stand-alone financial statements prepared in accordance with the NBG requirements.

As at 31 December 2023 and 2022 the Bank maintained minimum capital requirements in accordance to capital adequacy regulation approved and published on 28 October 2013 by the NBG (Decree N100/04) and adjusted for NBG's discretionary items, became effective on 30 June 2014.

The Bank's capital adequacy ratios calculated in accordance with NBG Basel II/III requirement were as follows:

	2023	2022
Owner's capital	50,000,000	50,000,000
Retained earnings according to NBG regulations	27,048,768	15,916,108
Less: Intangible assets	(871,005)	(976,799)
Primary capital	**76,177,763**	**64,939,309**
General reserves according to NBG regulations	-	2,122,727
Secondary capital	**-**	**2,122,727**
Regulatory capital	**76,177,763**	**67,062,036**
Risk weighted assets according to the NBG regulations	**225,290,666**	**190,046,070**
Primary capital ratio (primary capital/RWA)	**33.81%**	**34.17%**
Regulatory capital ratio (Regulatory capital/RWA)	**33.81%**	**35.29%**

7. Cash and cash equivalents

	31.12.2023	31.12.2022
Term deposits	16,148,502	-
Overnight placements with NBG	6,704,268	19,009,630
Cash balances with NBG (other than mandatory reserve deposits)	6,665,727	4,661,262
Cash on hand	6,128,177	6,527,041
Overnight placements with other banks	6,101,227	27,350,918
Correspondent accounts with other banks	2,383,012	7,917,641
	44,130,913	**65,466,492**

Cash balances on bank accounts can be classified as risk free, considering that the banks where the Bank has current accounts are reliable and well-known Georgian credit institutions.

Qualitative information about cash and cash equivalents are provided in Note 5.

Credit rating of correspondent accounts and overnight placements up to 90 days with other banks is as follows:

	31.12.2023	31.12.2022
BB	22,739,809	-
BB-	-	27,911,984
B-	1,892,932	7,356,575
	24,632,741	**35,268,559**

The table contains ratings of Fitch Ratings international agency.

As at 31 December 2023 and 2022 Fitch Ratings for Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) are 'BB+' with a Positive outlook (2022: 'BB+'). The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also affirmed at 'BB+' with a Positive outlook (2022: 'BB+'). The Country Ceiling is affirmed at 'BBB-' (2022: 'BBB-') and the Short-term Foreign and Local-Currency IDRs at 'B' (2022: 'B').

8. Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions.

Mandatory reserves in NBG amounts to GEL 19,775,806 as at 31 December 2023 (GEL 21,536,653 as at 31 December 2022). Qualitative information about mandatory reserves with the NBG are provided in Note 5.

9. Loans to customers

	31.12.2023	31.12.2022
Long-term Loans		
Trade and service sector	37,207,236	29,863,858
Individuals	14,797,947	8,154,055
Education sector	7,094,632	-
Construction sector	3,637,051	5,883,086
Mining and processing industry sector	976,979	437,691
Transportation and telecommunication sector	856,160	536,530
Other sectors	4,886,236	2,508,613
	69,456,241	**47,383,833**
Short-term Loans		
Trade and service sector	36,632,001	37,077,174
Construction sector	8,979,266	6,928,533
Mining and processing industry sector	6,731,034	189,043
Individuals	5,233,755	4,056,368
Transportation and telecommunication sector	1,761,635	2,266,714
Education sector	1,708,382	-
Other sectors	1,022,932	472,567
	62,069,005	**50,990,399**
Accrued interest	1,311,379	1,182,286
Overdue loans	197,125	324,522
Accrued penalties and fines	95,370	93,400
Total loans to customers before impairment	**133,129,120**	**99,974,440**
Allowance for impairment	(2,134,634)	(2,684,432)
Loans to customers at amortized cost	**130,994,486**	**97,290,008**

A reconciliation of the allowance for impairment of loans to customers was as follows:

	2023	2022
Balance as at 1 January:	**(2,684,432)**	**(1,758,296)**
Charge for the year	549,798	(926,136)
Balance as at 31 December:	**(2,134,634)**	**(2,684,432)**

Qualitative information about loans to customers are provided in Note 5.

9. Loans to customers (Continued)

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_1 (Mortgage) during the year ended 31 December 2023 is as follows:

Segment_1	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2022	**5,306,668**	**405,772**	**600,956**	**6,313,396**
New loans originated	5,110,463	-	-	**5,110,463**
Transfer to Stage 1	55,908	(55,908)	-	**-**
Transfer to Stage 2	(75,504)	75,504	-	**-**
Transfer to Stage 3	(54,998)	(201,285)	256,283	**-**
Fully repaid or derecognised loans	(637,193)	(148,579)	(293,560)	**(1,079,332)**
Other repayments	(692,445)	-	(32,142)	**(724,587)**
Net change for the year	(181,960)	140,191	(86,813)	**(128,582)**
Balance as at 31-12-2023	**8,830,939**	**215,695**	**444,724**	**9,491,358**
Collectively assessed	8,830,939	215,695	444,724	**9,491,358**
Balance as at 31-12-2023	**8,830,939**	**215,695**	**444,724**	**9,491,358**

Segment_1	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2022	**70,666**	**54,625**	**379,495**	**504,786**
New loans originated	20,460	-	-	**20,460**
Transfer to Stage 1	3,724	(3,724)	-	**-**
Transfer to Stage 2	(2,349)	2,349	-	**-**
Transfer to Stage 3	(1,766)	(28,792)	30,558	**-**
Fully repaid or derecognised loans	(8,421)	(22,109)	(191,691)	**(222,221)**
Other repayments	(41,356)	-	(145,633)	**(186,989)**
Net change for the year	(7,510)	2,968	(14,350)	**(18,892)**
ECL as at 31-12-2023	**33,448**	**5,317**	**58,379**	**97,144**
Collectively assessed	33,448	5,317	58,379	**97,144**
ECL as at 31-12-2023	**33,448**	**5,317**	**58,379**	**97,144**

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_2 (Consumer loan) during the year ended 31 December 2023 is as follows:

Segment_2	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2022	**3,676,771**	**-**	**66,335**	**3,743,106**
New loans originated	3,068,115	-	-	**3,068,115**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(48,429)	48,429	-	**-**
Transfer to Stage 3	-	-	-	**-**
Fully repaid or derecognised loans	(1,090,087)	-	(39,895)	**(1,129,982)**
Other repayments	(775,348)	-	13,579	**(761,769)**
Net change for the year	(360,458)	334,108	-	**(26,350)**
Balance as at 31-12-2023	**4,470,564**	**382,537**	**40,019**	**4,893,120**
Collectively assessed	4,470,564	382,537	40,019	**4,893,120**
Balance as at 31-12-2023	**4,470,564**	**382,537**	**40,019**	**4,893,120**

9. Loans to customers (Continued)

Segment_2	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2022	**28,703**	**-**	**25,545**	**54,248**
New loans originated	23,057	-	-	23,057
Transfer to Stage 2	(626)	626	-	-
Fully repaid or derecognised loans	(10,267)	-	(10,610)	(20,877)
Other repayments	(10,591)	-	(741)	(11,332)
Net change for the year	(14,595)	14,340	-	(255)
ECL as at 31-12-2023	**15,681**	**14,966**	**14,194**	**44,841**
Collectively assessed	15,681	14,966	14,194	**44,841**
ECL as at 31-12-2023	**15,681**	**14,966**	**14,194**	**44,841**

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_3-4 (Corporate and SME (Small and medium entities)) during the year ended 31 December 2023 is as follows:

Segment_3-4	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2022	**81,340,531**	**689,800**	**7,887,607**	**89,917,938**
New loans originated	84,580,406	-	-	**84,580,406**
Transfer to Stage 1	329,332	(329,332)	-	**-**
Transfer to Stage 2	(4,997,172)	9,737,676	(4,740,504)	**-**
Transfer to Stage 3	(442,609)	(307,111)	749,720	**-**
Fully repaid or derecognised loans	(41,762,765)	(53,358)	(1,700,016)	**(43,516,139)**
Other repayments	(9,826,506)	-	(512,767)	**(10,339,273)**
Net change for the year	(17,044,865)	12,919,779	2,226,796	**(1,898,290)**
Balance as at 31-12-2023	**92,176,352**	**22,657,454**	**3,910,836**	**118,744,642**
Individually assessed	-	-	2,632,404	**2,632,404**
Collectively assessed	92,176,352	22,657,454	1,278,432	**116,112,238**
Balance as at 31-12-2023	**92,176,352**	**22,657,454**	**3,910,836**	**118,744,642**

Segment_3-4	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2022	**280,087**	**17,920**	**1,827,391**	**2,125,398**
New loans originated	814,938	-	-	**814,938**
Transfer to Stage 1	13,198	(13,198)	-	**-**
Transfer to Stage 2	(29,471)	893,953	(864,482)	**-**
Transfer to Stage 3	(697)	(4,034)	4,731	**-**
Fully repaid or derecognised loans	(142,133)	(688)	(324,009)	**(466,830)**
Other repayments	(38,364)	-	86,276	**47,912**
Net change for the year	(601,500)	(516,613)	589,344	**(528,769)**
ECL as at 31-12-2023	**296,058**	**377,340**	**1,319,251**	**1,992,649**
Individually assessed	-	-	565,183	**565,183**
Collectively assessed	296,058	377,340	754,068	**1,427,466**
ECL as at 31-12-2023	**296,058**	**377,340**	**1,319,251**	**1,992,649**

9. Loans to customers (Continued)

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_1 (Mortgage) during the year ended 31 December 2022 is as follows:

Segment_1	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2021	**5,606,282**	**360,270**	**376,963**	**6,343,515**
New loans originated	2,441,799	-	-	**2,441,799**
Transfer to Stage 1	124,285	-	(124,285)	**-**
Transfer to Stage 2	(527,573)	527,573	-	**-**
Transfer to Stage 3	(145,680)	(309,015)	454,695	**-**
Repaid loans	(1,188,809)	(51,255)	(7,468)	**(1,247,532)**
Net change for the year	(1,003,636)	(121,801)	(98,949)	**(1,224,386)**
Balance as at 31-12-2022	**5,306,668**	**405,772**	**600,956**	**6,313,396**
Collectively assessed	5,306,668	405,772	600,956	**6,313,396**
Balance as at 31-12-2022	**5,306,668**	**405,772**	**600,956**	**6,313,396**

Segment_1	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2021	**17,670**	**54,279**	**253,794**	**325,743**
New loans originated	19,475	-	-	**19,475**
Transfer to Stage 1	80,837	-	(80,837)	**-**
Transfer to Stage 2	(1,645)	1,645	-	**-**
Transfer to Stage 3	(460)	(46,613)	47,073	**-**
Repaid loans	(3,761)	(7,666)	(4,857)	**(16,284)**
Net change for the year	(41,450)	52,980	164,322	**175,852**
ECL as at 31-12-2022	**70,666**	**54,625**	**379,495**	**504,786**
Collectively assessed	70,666	54,625	379,495	**504,786**
ECL as at 31-12-2022	**70,666**	**54,625**	**379,495**	**504,786**

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_2 (Consumer loan) during the year ended 31 December 2022 is as follows:

Segment_2	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2021	**3,414,510**	**106,951**	**38,897**	**3,560,358**
New loans originated	2,373,433	-	-	**2,373,433**
Transfer to Stage 1	89,568	(89,568)	-	**-**
Transfer to Stage 3	(35,591)	-	35,591	**-**
Repaid loans	(1,693,759)	(17,383)	(215)	**(1,711,357)**
Net change for the year	(471,390)	-	(7,938)	**(479,328)**
Balance as at 31-12-2022	**3,676,771**	**-**	**66,335**	**3,743,106**
Collectively assessed	3,676,771	-	66,335	**3,743,106**
Balance as at 31-12-2022	**3,676,771**	**-**	**66,335**	**3,743,106**

9. Loans to customers (Continued)

Segment_2	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2021	**12,258**	**19,655**	**25,299**	**57,212**
New loans originated	17,290	-	-	**17,290**
Transfer to Stage 1	16,418	(16,418)	-	**-**
Transfer to Stage 3	(1,478)	-	1,478	**-**
Repaid loans	(5,576)	(3,237)	(139)	**(8,952)**
Net change for the year	(10,209)	-	(1,093)	**(11,302)**
ECL as at 31-12-2022	**28,703**	**-**	**25,545**	**54,248**
Collectively assessed	28,703	-	25,545	**54,248**
ECL as at 31-12-2022	**28,703**	**-**	**25,545**	**54,248**

An analysis of charges in the gross carrying value and corresponding ECL in relation to Segment_3-4 (Corporate and SME (Small and medium entities)) during the year ended 31 December 2022 is as follows:

Segment_3-4	Stage 1	Stage 2	Stage 3	Total:
Balance as at 31-12-2021	**78,053,540**	**9,422,674**	**935,492**	**88,411,706**
New loans originated	50,472,911	-	-	**50,472,911**
Transfer to Stage 1	2,326,458	(2,326,458)	-	**-**
Transfer to Stage 2	(543,235)	543,235	-	**-**
Transfer to Stage 3	(653,276)	(5,488,148)	6,141,424	**-**
Repaid loans	(36,563,340)	(1,608,068)	(309,404)	**(38,480,812)**
Net change for the year	(11,752,527)	146,565	1,120,095	**(10,485,867)**
Balance as at 31-12-2022	**81,340,531**	**689,800**	**7,887,607**	**89,917,938**
Individually assessed	5,049,507	-	7,277,226	**12,326,733**
Collectively assessed	76,291,024	689,800	610,381	**77,591,205**
Balance as at 31-12-2022	**81,340,531**	**689,800**	**7,887,607**	**89,917,938**

Segment_3-4	Stage 1	Stage 2	Stage 3	Total:
ECL as at 31-12-2021	**102,449**	**647,958**	**624,934**	**1,375,341**
New loans originated	482,476	-	-	**482,476**
Transfer to Stage 1	142,961	(142,961)	-	**-**
Transfer to Stage 2	(621)	621	-	**-**
Transfer to Stage 3	(1,192)	(406,556)	407,748	**-**
Repaid loans	(55,221)	(98,440)	(201,241)	**(354,902)**
Net change for the year	(390,765)	17,298	995,950	**622,483**
ECL as at 31-12-2022	**280,087**	**17,920**	**1,827,391**	**2,125,398**
Individually assessed	3,269	-	1,434,165	**1,437,434**
Collectively assessed	276,818	17,920	393,226	**687,964**
ECL as at 31-12-2022	**280,087**	**17,920**	**1,827,391**	**2,125,398**

9. Loans to customers (Continued)

Concentration of loans to customers

As at 31 December 2023, the concentration of loans granted by the Company to ten largest third party borrowers comprised GEL35,195,826 accounting for 26.44 % of the gross loan portfolio of the Company (2022: GEL31,758,082 and 31.77 % respectively). An allowance of GEL215,640 (2022: GEL945,488) was established against these loans.

The amount of collateral required depend on an assessment of the credit risk of the counterparty. The Bank keeps real estate property as collaterals for loans issued.

The effect of collaterals as at 31 December 2023 and 2022 can be presented as follows:

	Gross carrying amount of loans 31.12.2023	ECL	Fair value of Collateral
Segment 1 – "Mortgage"	9,491,358	(97,144)	17,898,628
Segment 2 – „Consumer loan"	4,893,120	(44,841)	11,313,687
Segment 3,4 – "Corporate" and "SME" (Small and medium entities);	118,744,642	(1,992,649)	626,575,464
	133,129,120	**(2,134,634)**	**655,787,779**

	Gross carrying amount of loans 31.12.2022	ECL	Fair value of Collateral
Segment 1 – "Mortgage"	6,313,396	(504,786)	14,313,307
Segment 2 – „Consumer loan"	3,743,106	(54,248)	7,517,914
Segment 3,4 – "Corporate" and "SME" (Small and medium entities);	89,917,938	(2,125,398)	200,682,363
	99,974,440	**(2,684,432)**	**222,513,584**

Nominal values of other types of collaterals as at 31.12.2023 can be presented as follows: Warranty – GEL27,255,632 (31.12.2022: GEL29,512,136), Guarantee - GEL460,382,860 (31.12.2022: GEL437,163,817).

10. Investment securities

	2023	2022
Investment securities as at 1 January	**1,986,530**	**1,952,431**
Purchases	10,502,094	2,924,301
Discount	513,960	109,798
Redemption at maturity	(7,613,000)	(3,000,000)
Investment securities as at 31 December	**5,389,584**	**1,986,530**

Investment securities	**31.12.2023**	**31.12.2022**
Treasury bills of the Ministry of Finance of Georgia	5,389,584	-
Deposit certificates of the National Bank of Georgia	-	1,986,530
	5,389,584	**1,986,530**

Qualitative information about investment securities are provided in Note 5.

11. Right-of-use assets and lease liabilities

The Bank has leased administrative office and service centers. Lease payments are in GEL as well as in USD. Incremental borrowing rate for the leases denominated in USD and GEL amounted to 8.02% and 11.75% - 13.00%, respectively.

Right-of-use assets can be presented as follows:

	2023	2022
At 1 January	**932,208**	**787,905**
Change in estimate	92,926	392,066
Depreciation	(356,838)	(247,763)
At 31 December	**668,296**	**932,208**

Lease liabilities can be presented as follows:

	2023	2022
At 1 January	**894,166**	**766,226**
Change in estimate	92,926	392,066
Interest expense	72,419	70,681
Lease payments	(461,629)	(370,008)
VAT amount	31,046	33,295
Foreign exchange rate movements	(4,611)	1,906
At 31 December	**624,317**	**894,166**

Qualitative information about lease liabilities are provided in Note 5.

12. Property and equipment

Historical cost	Land and Buildings	Leasehold improvements	Furniture and fittings	Computers and office equipment	Other	Total
At 31 December 2021	**2,785,357**	**2,054,931**	**1,869,571**	**1,001,025**	**904,030**	**8,614,914**
Additions	-	-	17,778	822,020	-	**839,798**
At 31 December 2022	**2,785,357**	**2,054,931**	**1,887,349**	**1,823,045**	**904,030**	**9,454,712**
Additions	-	-	9,251	75,410	106,930	**191,591**
Disposals	-	-	(5,020)	(6,176)	-	**(11,196)**
At 31 December 2023	**2,785,357**	**2,054,931**	**1,891,580**	**1,892,279**	**1,010,960**	**9,635,107**
Accumulated depreciation						
At 31 December 2021	**(211,592)**	**(1,384,690)**	**(1,252,470)**	**(867,922)**	**(372,895)**	**(4,089,569)**
Depreciation charge	(41,518)	(202,522)	(200,124)	(113,289)	(124,321)	**(681,774)**
At 31 December 2022	**(253,110)**	**(1,587,212)**	**(1,452,594)**	**(981,211)**	**(497,216)**	**(4,771,343)**
Depreciation charge	(41,518)	(202,522)	(154,343)	(258,548)	(119,901)	**(776,832)**
Disposals	-	-	5,020	6,176	-	**11,196**
At 31 December 2023	**(294,628)**	**(1,789,734)**	**(1,601,917)**	**(1,233,583)**	**(617,117)**	**(5,536,979)**
Net book value						
31.12.2022	**2,532,247**	**467,719**	**434,755**	**841,834**	**406,814**	**4,683,369**
31.12.2023	**2,490,729**	**265,197**	**289,663**	**658,696**	**393,843**	**4,098,128**

Some of the property and equipment with the historical cost of GEL3,007,368 as at 31 December 2023 (31 December 2022: GEL2,946,847) are fully depreciated but still used by the Bank.

13. Amounts due to credit institutions

Amounts due to credit institutions mostly represent deposits of JSC Ziraat Bank Azerbaijan and JSC Ziraat Bank Turkey (London branch). Amounts due to credit institutions are amounted to GEL23,560,520 as at 31 December 2023 (GEL10,349,188 as at 31 December 2022).

Qualitative information about amounts due to credit institutions are provided in Note 5.

14. Customer accounts

	31.12.2023	31.12.2022
Current accounts	56,623,824	74,802,758
Deposits	47,565,997	36,460,351
	104,189,821	**111,263,109**
Held as security against guarantees issued (Note 22)	**8,823,509**	**4,964,677**

As at 31 December 2023, amounts due to customers of GEL32,069,165 (31%) were due to the ten largest customers (31 December 2022: GEL40,926,674 (37%)).

Customer accounts include accounts with the following types of customers:

	31.12.2023	31.12.2022
Legal entities	69,326,569	78,012,095
Individuals	34,863,252	33,251,014
	104,189,821	**111,263,109**

Customer accounts by economic sector are as follows:

	31.12.2023		31.12.2022	
	Amount	**%**	**Amount**	**%**
Trade	45,736,209	44%	46,880,994	42%
Individuals	34,863,252	33%	33,134,241	30%
Real estate constructions	9,772,333	9%	16,568,591	15%
Education	5,476,174	5%	6,781,409	6%
Mining	3,457,388	3%	3,141,548	3%
Other	4,884,465	5%	4,756,326	4%
	104,189,821	**100%**	**111,263,109**	**100%**

Qualitative information about customer accounts are provided in Note 5.

15. Other liabilities

	31.12.2023	31.12.2022
Income tax payable	713,029	775,190
Other	378,782	415,731
	1,091,811	**1,190,921**

16. Share Capital

As at 31 December 2023 and 2022, the authorised share capital of the Bank comprised 50,000,000 ordinary shares. All of them were issued and fully paid as at 31 December 2023 and 2022. Each share has nominal value of GEL1.

17. Interest income and expenses

Interest income	**2023**	**2022**
Loans to customers	13,233,271	10,783,843
NBG and credit institutions	2,767,752	1,873,310
Investment security	513,960	109,798
	16,514,983	**12,766,951**

Interest expense	**2023**	**2022**
Deposits from non-resident banks	(1,165,345)	(185,094)
Deposits from legal entities	(1,111,438)	(280,693)
Deposits from individuals	(537,810)	(637,751)
Financial liabilities measured at amortized cost	(72,419)	(70,681)
Deposits from resident banks	-	(55,350)
	(2,887,012)	**(1,229,569)**

18. Fee and commission income, net

Fee and commission income	**2023**	**2022**
Customer current accounts commissions	741,641	737,385
Income from guarantees issued	655,773	357,094
Cash operations	334,266	279,039
Cash collections and transportation	87,600	72,149
	1,819,280	**1,445,667**
Fee and commission expense		
Settlements operations	(805,641)	(845,631)
Commission expense related to internation operations	(466,870)	(306,579)
Cash operations	(171,444)	(30,578)
Cash collections and transportation	(163,000)	(110,360)
Nostro accounts commissions	(20,750)	(16,590)
	(1,627,705)	**(1,309,738)**
Fee and commission income, net	**191,575**	**135,929**

19. General and administrative expenses

	2023	2022
Employee benefit expenses	(3,844,623)	(3,410,543)
Depreciation and amortization	(1,303,209)	(1,078,116)
Software license and support expenses	(508,559)	(449,437)
Security expenses	(339,324)	(239,059)
Utilities	(224,293)	(206,792)
Professional services*	(201,856)	(150,857)
Communication expenses	(85,554)	(80,543)
Representative expenses	(82,348)	(89,768)
Taxes other than income tax	(73,309)	(68,713)
Transaction insurance	(52,353)	(40,779)
Property insurance	(45,370)	(45,298)
Short-term and low value rent expenses	(10,666)	(11,273)
Other expenses	(553,890)	(565,131)
	(7,325,354)	**(6,436,309)**

(*) – In 2023 Professional services contain audit of financial statements expenses with the amounts of GEL33,771 (2022: GEL40,547).

20. Income tax expenses

	2023	2022
Current tax	(1,771,819)	(1,060,708)
Effect of temporary differences before change in tax rate	510,623	149,625
Deferred tax expense resulting from increase in tax rate (+5%)*	-	(17,686)
	(1,261,196)	**(928,769)**

	2023	2022
Profit before tax	**8,789,985**	**6,720,217**
Applicable tax rate	20%	15%
Theoretical income tax	**(1,757,997)**	**(1,008,033)**
Impact of increase in tax rate on permanent differences (+5%)*	-	18,182
Effect of permanent differences**	496,801	61,082
	(1,261,196)	**(928,769)**

Deferred income tax liabilities and its movement can be presented as follows:

Effect of temporary differences	31.12.2021	Recognized in profit/loss	31.12.2022	Recognized in profit/loss	31.12.2023
Property and equipment	**(15,782)**	(25,888)	**(41,670)**	28,790	**(12,880)**
Intangible assets	**(15,057)**	(6,410)	**(21,467)**	5,912	**(15,555)**
Loans to customers	**(573,473)**	192,032	**(381,441)**	381,441	**-**
Impairment provision for guarantees issued	**(72,230)**	(23,438)	**(95,668)**	95,668	**-**
Leases	**(3,252)**	(4,357)	**(7,609)**	(1,188)	**(8,797)**
Tax liabilities	**(679,794)**	**131,939**	**(547,855)**	**510,623**	**(37,232)**
Net tax liabilities	**(679,794)**	**131,939**	**(547,855)**	**510,623**	**(37,232)**

20. Income tax expenses (Continued)

(*) On 27 December 2022, the Georgian Law on Amendments to the Tax Code of Georgia was published, which will be effective from January 1, 2023. These changes have the following impact on the company: prior to these changes, the tax legislation of Georgia stated that banking institutions, credit unions, microfinance organizations, and lending entities would be subject to the new (Estonian) profit tax regime from January 1, 2023. The amendment of 27 December 2022 determined that these entities will no longer be subject to Estonian profit tax regime, and in the future, they will be taxed according to the old method. This means that they will be taxed based on the differences between their total income and the deductible amounts determined by the Code of Georgia (Article 97, Section 12).

Additionally, a new Section 4 was added to Article 98 of the Tax Code of Georgia, which determines the rate of profit tax. This means that the taxable profit of a banking institution, credit union, microfinance organization, or lending entity will be taxed at 20 percent.

Beside the fact that taxation will occur in accordance with so-called old profit tax regime, the income and expenses determined by the Georgian Tax Cod for the financial sector were changed, in particular, Article 141 of Georgian Tax Cod, which defines the moment of receipt of income by the accrual method, a new section 5 was added, which determined that from the 1st January 2023, the banking institution, credit unions and microfinance organizations must recognize interest accrued on loans as revenue in accordance with International Financial Reporting Standards (IFRS). As for the deduction of reserves on loans to customers, according to the revised Article 109 of the Georgian Tax Code, from the 1st January 2023, the aforementioned Companies will deduct reserves for expected credit losses according to the International Financial Reporting Standards (IFRS), instead of the rule established by the National Bank of Georgia.

The tax rate for banks for profits other than on state securities was 20% and 15% for 2023 and 2022.

(**) - Effect of permanent differences is mostly comprised of Interest income accrued on state securities and the NBG deposits. The tax rate for interest income on state securities and the NBG deposits is 0%.

21. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

b) Members of key management personnel of the Bank or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

31.12.2023	Companies under same ownership	Key management	Shareholder
Assets			
Deposits placed	-	-	1,892,447
Loans issued	-	229,769	-
Liabilities			
Amounts due to credit institutions	23,555,207	-	-
Customer accounts	-	168,685	-

21. Transactions with related parties (Continued)

2023	Companies under same ownership	Key management	Shareholder
Interest income	-	5,725	5,285
Short term employee benefits	-	(746,483)	-
Interest expense	(1,007,975)	-	(157,371)

31.12.2022	Companies under same ownership	Key management	Shareholder
Assets			
Deposits placed	-	-	7,356,575
Loans issued	-	319,446	-
Other assets	6,802	-	-
Liabilities			
Amounts due to credit institutions	10,148,712	-	200,476
Customer accounts	-	32,000	-
Other liabilities	8,485	-	-

2022	Companies under same ownership	Key management	Shareholder
Interest income	-	11,363	38,427
Short term employee benefits	-	(697,571)	
Interest expense	(185,094)	-	(32,153)

22. Commitments and contingencies

Legal cases - As at 31 December 2023 and 2022 the Bank has no legal actions and complaints. Management seeks both internal and external professional advices and believes that the ultimate liability, if any, arising from actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. Related to above mentioned no provision is accrued in the financial statements.

Taxes - Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Management report - In accordance with the Law on accounting, reporting and auditing (article 7) the Bank has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 1 October of the year following the reporting period. The Bank has not fulfilled this obligation at the date of issue of the financial statements.

Credit related commitments and financial guarantees - The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees represent the irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

22. Commitments and contingencies (Continued)

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

	2023	2022
Credit related commitments		
Guarantees	45,817,978	33,919,640
Undrawn loan commitments	12,710,550	6,231,447
Commitments and contingencies (before deducting collateral)	**58,528,528**	**40,151,087**
Less – cash held as security against guarantees issued (Note 14)	8,823,509	4,964,677
Commitments and contingencies	**49,705,019**	**35,186,410**

23. Events after the reporting period

There have not been any subsequent events that need to be disclosed in these financial statements.