JSC Liberty Bank

Standalone financial statements

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

Contents

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Independent auditor's report

To the Shareholders and Supervisory Board of JSC Liberty Bank

Report on the audit of the standalone financial statements

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the standalone financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the standalone financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying standalone financial statements.

Key audit matter	How our audit addressed the key audit matter

Allowance for expected credit losses on loans to customers

Given the significance of the loans to customers to the Bank's financial position, and the complexity and judgments related to the estimation of expected credit losses under IFRS 9 Financial Instruments ("IFRS 9"), we consider this area as a key audit matter.

The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates.

Both collective and individual provisioning depend on a number of assumptions and judgments such as:

- Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL);
- Allocation of loans to stage 1, 2 or 3 using criteria set in accordance with IFRS 9;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD); and
- Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral.

As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses.

Information on the impairment of loans to customers is included in Note 8, Loans to Customers and Note 25, Risk Management, to the standalone financial statements.

We obtained an understanding of the ECL process and evaluated the methodology developed by the Bank.

We focused on analysis of the following areas during our audit:

- Evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis;
- Assessing management's judgement in relation to the identification of significant increases in credit risk and event of default on an individual and collective basis based on quantitative and qualitative criteria; evaluating consistency of application of the criteria selected by the management as of the reporting date; testing allocation of loans to respective impairment stages based on the criteria predefined in the Bank's ECL methodology;
- For a sample of individually assessed loans, we evaluated the basis on which the allowance was determined and the evidence supporting the management analysis, challenged whether the key assumptions and inputs used were appropriate in the borrower' circumstances and recalculated the impairment allowance. For a sample of credit-impaired corporate exposures, we challenged assumptions on estimated future cash flows, including value of collaterals and probabilities of expected outcomes;
- To test allowance calculated on a collective basis, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit loss.

We assessed the disclosures in the standalone financial statements on the impairment of loans to customers.

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Other information included in the Bank's 2022 Management Report

Other information consists of the information included in the Bank's 2022 Management Report other than the standalone financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Audit Committee for the standalone financial statements

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

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

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

Auditor's responsibilities for the audit of the standalone financial statements

Our objectives are to obtain reasonable assurance about whether the standalone 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 standalone financial statements.

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

- Identify and assess the risks of material misstatement of the standalone 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 standalone 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 standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the standalone financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats of safeguards applied.

From the matters communicated with the Audit Committee , we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report in accordance with the requirements of Article 7, paragraph 10 of the Georgian Law on Accounting, Reporting and Auditing

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Management report for the financial year for which the financial statements are prepared is consistent with the standalone financial statements; and
- The Management report includes the information required by the Article 7 of the Georgian Law on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili

On behalf of EY LLC

25 May 2023

Tbilisi, Georgia

Standalone statement of financial position

As of 31 December 2022

(thousands of Georgian Lari)

	Notes	2022	2021
Assets			
Cash and cash equivalents	6	450,324	641,617
Amounts due from credit institutions	7	105,341	87,656
Loans to customers	8	2,426,423	1,879,721
Investment securities	9	369,481	239,654
Property and equipment	10	152,074	148,071
Intangible assets	11	57,159	55,893
Right of use assets	12	30,141	32,964
Prepayments	14	6,310	4,689
Current income tax asset		1,982	3,552
Other assets	14	40,372	17,894
Total assets		**3,639,607**	**3,111,711**
Liabilities			
Amounts due to credit institutions	16	327,279	349,727
Amounts due to customers	17	2,689,673	2,233,668
Current income tax payable		5,250	–
Deferred income tax liabilities	13	19,565	835
Lease liability	12	28,741	35,897
Other liabilities	14	56,630	30,126
Subordinated debt	18	98,774	112,460
Total liabilities		**3,225,912**	**2,762,713**
Equity	19		
Share capital		54,629	54,629
Additional paid–in capital		36,851	36,851
Treasury shares		(10,138)	(10,138)
Convertible preferred shares		4,565	4,565
Retained earnings		303,834	240,950
Fair value reserve of investment securities measured at fair value through other comprehensive income		1,526	–
Property revaluation reserve		22,428	22,141
Total equity		**413,695**	**348,998**
Total liabilities and equity		**3,639,607**	**3,111,711**

Given the authority under Article 9.8 of the Bank's Charter, the present document is signed and authorized for release on behalf of the Management Board of the Bank by following directors:

Beka Gogichaishvili — Chief Executive Officer

Vakhtang Babunashvili — Chief Financial Officer

25 May 2023

The accompanying notes on pages 5 to 65 are an integral part of these standalone financial statements.

Standalone statement of comprehensive income

For the year ended 31 December 2022

(thousands of Georgian Lari)

	Notes	*2022*	*2021*
Interest income calculated using EIR method			
Loans to customers		406,625	339,945
Investment securities		22,866	22,807
Amounts due from credit institutions		12,160	5,785
		441,651	**368,537**
Interest expense			
Amounts due to customers		(164,448)	(120,496)
Amounts due to credit institutions		(16,546)	(16,341)
Lease liabilities		(1,471)	(1,841)
Subordinated debt		(9,177)	(10,439)
		(191,642)	**(149,117)**
Net interest income		**250,009**	**219,420**
Credit loss expense	15	(25,940)	(34,216)
Net interest income after loan impairment charge		**224,069**	**185,204**
Fee and commission income, net:	21	**28,920**	**20,221**
–fee and commission income		47,669	34,735
–fee and commission expense		(18,749)	(14,514)
Net gains/(losses) from foreign currencies:			
–Dealing and derivative revaluation	22	8,921	2,544
–Translation differences	22	(2,623)	(3,951)
Gain from portfolio acquisition	8	17,084	–
Other income	23	2,185	9,354
Non–interest income		**54,487**	**28,168**
Personnel expenses	24	(100,380)	(81,216)
General and administrative expenses	24	(45,110)	(41,901)
Depreciation and amortization	10, 11, 12	(34,532)	(34,252)
Other operating expenses		(11,982)	(9,893)
Other impairment and provisions charge	15	(959)	(509)
Non–interest expense		**(192,963)**	**(167,771)**
Profit/(loss) before income tax expense		**85,593**	**45,601**
Income tax expense	13	(22,431)	(3,106)
Profit/(loss) for the year		**63,162**	**42,495**
Other comprehensive income			
Other comprehensive income not to be reclassified subsequently to profit or loss			
Revaluation of buildings		2,334	–
Deferred tax effect		(1,549)	–
Net other comprehensive income not to be reclassified subsequently to profit or loss		***785***	**–**
Other comprehensive income to be reclassified subsequently to profit or loss			
Movements in fair value reserve for investment securities measured at fair value through other comprehensive income		1,526	–
Net other comprehensive income to be reclassified subsequently to profit or loss		**1,526**	**–**
Total other comprehensive income for the year, net of tax		**2,311**	**–**
Total comprehensive income for the year, net of tax		**65,473**	**42,495**
Earnings per share:	19		
Basic earnings per share (in ₾ full amount)		0.014	0.00926
Diluted earnings per share (in ₾ full amount)		0.014	0.00926

The accompanying notes on pages 5 to 65 are an integral part of these standalone financial statements.

Standalone statement of changes in equity

For the year ended 31 December 2022

(thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	***Additional paid–in capital***	***Treasury shares***	***Convertible preferred shares***	***Retained earnings***	***Fair value reserve for investment securities at FVOCI***	***Property revaluation reserve***	***Total***
31 December 2020	**54,629**	**36,851**	**(10,138)**	**4,565**	**198,770**	**–**	**22,602**	**307,279**
Total comprehensive income for the year	–	–	–	–	42,495	–	–	**42,495**
Depreciation of revaluation reserve *(Note 19)*	–	–	–	–	461	–	(461)	**–**
Dividends paid on the convertible preferred shares *(Note 19)*	–	–	–	–	(776)	–	–	**(776)**
31 December 2021	**54,629**	**36,851**	**(10,138)**	**4,565**	**240,950**	**–**	**22,141**	**348,998**
Profit for the year	–	–	–	–	63,162	–	–	**63,162**
Other comprehensive income	–	–	–	–	–	1,526	785	**2,311**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**63,162**	**1,526**	**785**	**65,473**
Depreciation of revaluation reserve *(Note 19)*	–	–	–	–	498	–	(498)	–
Dividends paid on the convertible preferred shares *(Note 19)*	–	–	–	–	(776)	–	–	**(776)**
31 December 2022	**54,629**	**36,851**	**(10,138)**	**4,565**	**303,834**	**1,526**	**22,428**	**413,695**

The accompanying notes on pages 5 to 65 are an integral part of these standalone financial statements.

Standalone statement of cash flows

For the year ended 31 December 2022

(Thousands of Georgian Lari)

	Notes	*2022*	*2021*
Cash flows from operating activities			
Interest received		383,911	354,805
Interest paid		(178,945)	(149,981)
Fees and commissions received		47,521	34,692
Fees and commissions paid		(18,748)	(14,515)
Net realized (losses)/gains from dealing in foreign currencies		31,895	3,823
Other income received		3,572	897
Personnel expenses paid		(105,180)	(82,711)
Lease interest paid		(1,471)	(1,841)
General, administrative and other operating expenses paid		(56,937)	(55,271)
Cash flows from operating activities before changes in operating assets and liabilities		**105,618**	**89,898**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(30,203)	107,344
Loans to customers		(283,771)	(336,573)
Prepayments and other assets		(28,555)	–
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(5,459)	37,432
Amounts due to customers		241,447	100,080
Other liabilities		9,679	–
Net cash flows from operating activities before income tax		**8,756**	**(1,819)**
Income tax paid		–	–
Net cash flows from operating activities		**8,756**	**(1,819)**
Cash flows from investing activities			
Purchase of investment securities		(209,408)	(20,650)
Proceeds from redemption of investment securities		83,346	52,940
Purchase of intangibles, property and equipment		(21,975)	(12,077)
Proceeds from sale of investment property		1,144	14
Net cash flows from/(used in) investing activities		**(146,893)**	**20,227**
Cash flows from financing activities			
Repayment of lease liabilities	12	(7,087)	(7,289)
Issued of subordinated debt	18	–	7,504
Redemption of subordinated debt	18	–	(2,610)
Dividends paid to holders of the convertible preferred shares	19	(776)	(776)
Net cash from / (used in) financing activities		**(7,863)**	**(3,171)**
Effect of exchange rates changes on cash and cash equivalents		(45,266)	(5,740)
Effect of expected credit losses on cash and cash equivalents		(27)	18
Net increase in cash and cash equivalents		**(191,293)**	**9,515**
Cash and cash equivalents, beginning	6	641,617	632,102
Cash and cash equivalents, ending	6	**450,324**	**641,617**

Significant non–cash transaction in 2022 related to acquisition of a portfolio of financial assets and liabilities from VTB Bank Georgia (Note 4).

(thousands of Georgian Lari)

1. Principal activities

JSC Liberty Bank (the "Bank") is a joint stock company, formed in accordance with legislation of Georgia in 1993. The Bank operates under a general banking license No. 3500/10 issued by the National Bank of Georgia (the "NBG"), the central bank of Georgia, on 10 February 1993 (Identification Code: 203828304).

Georgian Financial Group B.V., a company established and organised under the laws of the Kingdom of Netherlands, is the Parent entity of the Bank and owns 77.64% of its equity interest. The ultimate beneficial owners of the Bank are Mr. Irakli Rukhadze, Mr. Ben Marson and Mr. Igor Alexeev.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and abroad, exchanges currencies and provides other banking services to its retail and corporate customers. Its main office is in Tbilisi, Georgia and as of 31 December 2022 it had 471 branches, service centers, distribution outlets and mobile banking units operating in Georgia (31 December 2021: 459). The Bank's registered legal address is Liberty Tower, 74 I. Chavchavadze Avenue, 0162 Tbilisi, Georgia.

As of 31 December 2022 and 2021, direct shareholders of the Bank were as follows:

	2022		*2021*	
Shareholder	***Ownership interest, %***	***Voting rights, %***	***Ownership interest, %***	***Voting rights, %***
Georgian Financial Group	74.38%	91.99%	74.38%	91.18%
Liberty Bank (Treasury Shares)	18.43%	–	18.43%	–
JSC Heritage Securities (Nominee Holder)	1.18%	–	1.29%	–
Other shareholders (individually holding less than 5%)	6.02%	8.0%	5.90%	8.82%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Bank is a publicly traded company and its ordinary shares are traded on the Georgian Stock Exchange.

These financial statements have not yet been approved by the shareholders of the Bank. The shareholders have the power and authority to amend the financial statements after the issuance.

The standalone financial statements as at 31 December 2022 and 31 December 2021 exclude the following subsidiary and associate, which had limited operations in 2022 and 2021.

			The Bank ownership interest			
Name	***Relationship Type***	***Country of incorporation***	***31 December 2022***	***31 December 2021***	***Date of incorporation***	***Activities***
Bus Stop LLC	Subsidiary	Georgia	100.00%	100.00%	27 August 2009	Outdoor Advertising
JSC Smartex*	Associate	Georgia	21.47%	21.47%	5 January 2009	Early–stage VC investments

* *Accounted for in the Bank's financial statements under the equity method.*

2. Basis of preparation

General

These standalone financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The standalone financial statements have been prepared under the historical cost convention except for the portion of the investment securities FVOCI, derivative financial instruments, investment properties and buildings as disclosed in the accounting policies below.

These standalone financial statements are presented in thousands of Georgian Lari ("₾"), except per share amounts and unless otherwise indicated.

These standalone financial statements have been prepared in accordance with the requirements of Law of Georgia on accounting, reporting and auditing. On 23 May 2023, the Group issued consolidated financial statements for the year ended 31 December 2022 prepared in accordance with IFRS.

(thousands of Georgian Lari)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first–time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments to standards were applied for the first time in the 2022 year, resulting in consequential changes to the accounting policies and other note disclosures:

- ► Reference to the Conceptual Framework – Amendments to IFRS 3
- ► Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- ► Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- ► IFRS 1 First–time Adoption of International Financial Reporting Standards – Subsidiary as a first–time adopter
- ► IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- ► IAS 41 Agriculture – Taxation in fair value measurements

The amendments effective since 1 January 2022 do not have an impact on the financial statements of the Bank.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post–acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Bank measures financial instruments carried at FVOCI and non–financial assets such as investment property, at fair value at each balance sheet date.

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Bank commits to purchase the asset or liabilities. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

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

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative at FVPL. Investment securities are classified at FVOCI or amortized cost, depending on their respective business models.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

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

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments 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).

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The details of these conditions are outlined below.

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.

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 guarantees, letters of credit and undrawn loan commitments

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

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

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Cash and cash equivalents

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

Amounts due from credit institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Amounts due from credit institutions are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Derivative financial instruments

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the standalone statement of profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the standalone statement of profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the standalone statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the standalone statement of financial position.

Renegotiated loans

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

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Renegotiated loans (continued)

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

According to the Bank's policy, only a limited number of products are subject to restructuring. All restructured loans are classified as Stage 2 loans and Lifetime Probability of Default (PD) rates are applied for the purpose of ECL calculation. It is the Bank's policy to consider a financial instrument as 'cured' and therefore re–classified out of Stage 2 when at least six consecutive payments are present.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Write–off

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

Financial liabilities

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

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

Leases

i. Bank as a lessee

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Leases (continued)

Right–of–use assets

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

Lease liabilities

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

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

Short–term leases

The amount which the Bank recognized as short–term lease expense in comprehensive income is GEL 2,080 (2021 – GEL 1,933). (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short–term leases are recognised as expense on a straight–line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non–cancellable term of the lease, together with any periods covered by an option to extend the lease 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.

The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

ii. Operating – Bank as a lessor

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

Property and equipment, except for buildings, is carried at cost, excluding the costs of day–to–day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight–line basis at the following annual prescribed rates:

Land and buildings	2%–5%
Furniture and fixtures	10%–20%
Computer and office equipment	15%–25%
Motor vehicles	20%–25%
Leasehold improvements	10%–25%

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

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

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Land is not amortised and carried at fair value. Leasehold improvements are amortised over the life of the related leased assets.

Assets under construction comprise costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in other income when the compensation becomes receivable.

Investment properties

The Bank holds certain properties as investments to earn rental income, generate capital appreciation or both and which are not used or held for the sale in the ordinary course of business. Investment properties are initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment properties is determined on the base of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Gains and losses resulting from changes in the fair value of investment properties are recorded in standalone statement of profit or loss and presented within other income or other operating expenses lines.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Research and development costs

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

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

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

Provisions

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

Retirement and other benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of Georgia. In addition, the Bank has no post–retirement benefits.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Share capital

Share capital and additional paid in capital

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

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at the weighted average cost.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar revenue and expense

The Bank calculates interest revenue 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 assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

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

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the standalone statement of profit or loss.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can 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. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(thousands of Georgian Lari)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the where the Bank's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The exchange rates used by the Bank in the preparation of the standalone financial statements as of 31 December 2022 and 31 December 2021 are as follows:

	2022	*2021*
₾ / 1 US Dollar	2.7020	3.0976
₾ / 1 Euro	2.8844	3.5040

4. Significant accounting judgments and estimates

The preparation of the Bank's standalone financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the year ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the Bank's financial condition.

(thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Impairment losses on financial assets

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

- The 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 Life–time Expected Credit Loss (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 unemployment levels and 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 loan book portfolio to assess borrower's ability to pay, conducts tests 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 group of homogenous loans to reflect current circumstances and forward looking macroeconomic variables (details of ECL recognised on loans to customers as at 31 December 2022 are disclosed in Note 8).

Measurement of fair value of investment properties and buildings

Investment properties and buildings are stated at fair value. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Buildings of the Bank are subject to revaluation on a regular basis. The date of latest revaluation was 31 December 2022 *(Note 10)*.

As of 31 December 2022, fair value of investment properties and buildings were determined by independent professionally qualified appraisers. Fair value was determined by applying income approach based on discounted cash flow method, supported by the terms of any existing lease and other contracts and, when available, by external evidence such as current market rents for similar properties in a comparable location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The estimates described above are subject to change as new transaction data and market evidence become available.

Acquisition of loan and deposit portfolio from the VTB Bank Georgia

The Bank acquired from VTB Bank Georgia a portfolio of customer loans, customer deposits and guarantees in March 2022. VTB Bank Georgia disposed of major part of its assets and liabilities due to inability to continue business in Georgia due to sanctions imposed on its controlling parties by the USA, EU and other countries. The purpose of the transaction for the Bank was to grow book of business through acquisition.

The Bank analysed whether a transaction represented an acquisition of assets and liabilities or a business combination. Based on the Bank's judgment the acquired assets and liabilities did not meet the definition of a business as defined by IFRS 3 – *Business Combinations.*

The above judgment has a significant impact on the accounting of the transaction.

(thousands of Georgian Lari)

4. Significant accounting judgments and estimates (continued)

Acquisition of loan and deposit portfolio from the VTB Bank Georgia (continued)

The transaction consisted of the Bank receiving financial assets and assuming financial liabilities. The Bank recognised all financial instruments at their fair values at the date of recognition. As the fair value of assets exceeded fair value of liabilities the Bank recognised a day one profit of GEL 17,084 from the transaction. Subsequent to initial recognition, financial assets and financial liabilities acquired are accounted for following relevant accounting policies based on their classification.

5. Segment information

As at 31 December 2022, management evaluates the whole Bank as a single operating segment, banking business Segment performance is measured based on profit or loss as recognized in the standalone financial statements.
The Bank operates in one geographical market – Georgia. Since the Bank's assets are located in single geographical area, the Bank's external income, total assets and capital expenditure are allocated to a single location. The Bank has not received income from any external customer which amounted more than 10% of the Bank's revenue.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	*2021*
Cash on hand	267,685	261,951
Current accounts with other credit institutions	122,357	33,798
Current accounts with the NBG	60,309	39,133
Time deposits with credit institutions up to 90 days	–	306,735
	450,351	**641,617**
Less – allowance for impairment	(27)	–
Cash and cash equivalents	**450,324**	**641,617**

As of 31 December 2022, ₾ 28,511 (31 December 2021: ₾ 24,943) was placed on current accounts with internationally recognised OECD banks that are the counterparties of the Bank in performing international settlements.

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

	2022	*2021*
A	14,261	–
A–	14,250	–
BBB+	–	24,908
BBB–	–	1,442
BB–	75,708	3,689
B+	10	402
B	2,819	3,123
B–	17	–
Not rated	15,292	234
Total	**122,357**	**33,798**

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

	2022	*2021*
BB–	–	306,735
Total	–	**306,735**

The tables contain ratings of Fitch Ratings international agency. All balances of cash equivalents are allocated to Stage 1.

(thousands of Georgian Lari)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2022	*2021*
Obligatory reserve with the NBG	73,138	71,062
Guarantee deposits placed	31,478	15,921
Time deposits for more than 90 days	905	837
	105,521	**87,820**
Less – allowance for impairment	(180)	(164)
Amounts due from credit institutions	**105,341**	**87,656**

Credit institutions are required to maintain an interest–earning cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw these deposits is restricted by the NBG regulations. In 2021, the obligatory reserve percentages applied to certain categories of the Bank's liabilities were revised downwards resulting in decrease in the amount of corresponding obligatory reserve asset. The Bank is required to maintain a mandatory interest earning deposit with the NBG at the level of 5% to 25% (2021: 5% to 25%) of the average of funds attracted from customers and non–resident credit institutions for the appropriate two–week period in GEL and foreign currencies.

As of 31 December 2022, ₾ 31,478 (31 December 2021: ₾ 15,921) was a guarantee deposit placed for variation and safety margins defined in the Credit Support Annex (the "CSA") to the Schedule to the ISDA Master Agreement for funding swaps. Variation margin is modified from time to time based on the mark–to–market revaluation of the forward contracts. More details are provided in *Note 14*. The Bank's assets and liabilities under the swap agreements can be offset against the collateral in certain circumstances as per the terms of the offsetting provisions in the relevant framework agreement. As at 31 December 2022 and 2021, derivative liabilities and respective collateral paid did not qualify to offset in accordance with IAS 32 *Financial Instruments: Presentation*.

An analysis of changes in the gross carrying value and corresponding ECL in relation to amount due from credit institutions during the year ended 31 December 2022 and 31 December 2021 is as follows:

	Gross carrying value	*ECL*
As at 1 January 2022	**87,820**	**(164)**
New assets originated	77,774	(129)
Assets repaid	(47,858)	89
Foreign exchange and other movements	(12,215)	24
At 31 December 2022	**105,521**	**(180)**

	Gross carrying value	*ECL*
As at 1 January 2021	**203,788**	**(634)**
New assets originated	59,906	**(111)**
Assets repaid	(168,613)	**524**
Foreign exchange and other movements	(7,261)	**57**
At 31 December 2021	**87,820**	**(164)**

All balances of amounts due from credit institutions are allocated to Stage 1.

(thousands of Georgian Lari)

8. Loans to customers

Loans to customers comprise:

	2022	*2021*
Commercial loans	859,683	576,361
Consumer loans	615,760	487,031
Loans to clients with regular inflows*	365,010	397,350
Micro loans	318,945	261,470
Residential mortgage loans	207,177	166,105
Gold pawn loans	175,002	142,313
Gross loans to customers at amortised cost	**2,541,577**	**2,030,630**
Less – allowance for impairment	(115,154)	(150,909)
Loans to customers at amortised cost	**2,426,423**	**1,879,721**

* *Loans to clients with regular inflows includes pension loans, overdrafts, salary loans.*

As of 31 December 2022, ₾ 72,623 (₾ 77,248 as of 31 December 2021) worth of customer loans were pledged as a collateral for the loan from the National Bank of Georgia.

Acquisition of loan and deposit portfolio from the VTB Bank Georgia

Due to the war in Ukraine and sanctions applied on the Russian credit institutions VTB Bank Georgia, a subsidiary of the VTB Russia, disposed of majority of its assets and liabilities with the customers in the first quarter of 2022. The Bank acquired significant part of these portfolios. Considering a high degree of uncertainty following the Russian aggression and inability of the VTB Bank Georgia to fully services its customers, and to mitigate potential negative impact on the Georgian banking sector from prolonged uncertainties the transaction was conducted under significant time constraints. The intended purpose of the transaction was for the VTB Bank Georgia to dispose and for the Bank to assume financial assets and financial liabilities with equal fair values. However, due to mentioned time constraints to close the transaction the parties were unable to perform full due diligence and detailed valuation, therefore the transaction was closed at the best estimates agreed by the parties.

Subsequent to closing of the transaction on 12 March 2022, the Bank performed detailed analysis and valuation of the assets and liabilities acquired in the transaction. As a result, the management determined that as at 12 March 2022 the Bank acquired net loans to customers of GEL 317,070, customer deposits of GEL 302,037, cash of GEL 2,051 and off–balance commitments including guarantees with notional amount of GEL 6,252 and unused credit limits with notional amount of GEL 24,063 (the off–balance items had immaterial fair value). Therefore, the gain of GEL 17,084 had been recognized in the standalone financial statements as gain from portfolio acquisition representing the difference between fair values of acquired assets and assumed liabilities.

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to commercial loans during the year ended 31 December 2022 and 31 December 2021 is as follows:

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**466,868**	**101,648**	**7,845**	–	**576,361**
New assets originated or purchased	714,392	–	–	–	**714,392**
New assets purchased from VTB	281,855	–	–	10,403	**292,258**
Assets repaid	(669,344)	(61,143)	(3,439)	(3,078)	**(737,004)**
Transfers to Stage 1	18,794	(18,584)	(210)	–	–
Transfers to Stage 2	(33,757)	33,786	(29)	–	–
Transfers to Stage 3	(1,267)	(1,751)	3,018	–	–
Unwinding of discount	–	–	160	–	**160**
Recoveries	–	–	297	–	**297**
Amounts written off	–	–	(38)	–	**(38)**
Foreign exchange and other movements	18,359	(1,907)	(2,127)	(1,068)	**13,257**
At 31 December 2022	**795,900**	**52,049**	**5,477**	**6,257**	**859,683**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**377,455**	**120,008**	**4,158**	**501,621**
New assets originated or purchased	646,159	–	–	**646,159**
Assets repaid	(538,413)	(46,630)	(1,749)	**(586,792)**
Transfers to Stage 1	7,676	(7,521)	(155)	**–**
Transfers to Stage 2	(41,074)	41,353	(279)	**–**
Transfers to Stage 3	(2,876)	(3,413)	6,289	**–**
Unwinding of discount	–	–	123	**123**
Recoveries	–	–	159	**159**
Amounts written off	–	–	(182)	**(182)**
Foreign exchange and other movements	17,941	(2,149)	(519)	**15,273**
At 31 December 2021	**466,868**	**101,648**	**7,845**	**576,361**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	7,424	7,294	2,904	–	**17,622**
New assets originated or purchased	11,875	–	–	–	**11,875**
New assets purchased from VTB	197	–	–	–	**197**
Assets repaid	(7,512)	(4,527)	(1,647)	–	**(13,686)**
Transfers to Stage 1	1,446	(1,276)	(170)	–	**–**
Transfers to Stage 2	(1,367)	1,381	(14)	–	**–**
Transfers to Stage 3	(278)	(1,276)	1,554	–	**–**
Unwinding of discount	–	–	160	–	**160**
Impact on period end ECL of exposures transferred between stages during the period	(1,368)	2,005	577	–	**1,214**
Recoveries	–	–	297	–	**297**
Amounts written off	–	–	(38)	–	**(38)**
Foreign exchange and other movements	(4,264)	491	(910)	345	**(4,338)**
At 31 December 2022	**6,153**	**4,092**	**2,713**	**345**	**13,303**

Commercial loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**7,979**	**9,368**	**1,518**	**18,865**
New assets originated or purchased	13,268	–	–	**13,268**
Assets repaid	(8,508)	(4,284)	(462)	**(13,254)**
Transfers to Stage 1	503	(405)	(98)	**–**
Transfers to Stage 2	(2,653)	2,794	(141)	**–**
Transfers to Stage 3	(378)	(405)	783	**–**
Unwinding of discount	–	–	123	**123**
Impact on period end ECL of exposures transferred between stages during the period	(418)	1,247	885	**1,714**
Recoveries	–	–	159	**159**
Amounts written off	–	–	(182)	**(182)**
Foreign exchange and other movements	(2,369)	(1,021)	319	**(3,071)**
At 31 December 2021	**7,424**	**7,294**	**2,904**	**17,622**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**412,182**	**18,033**	**56,816**	**–**	**487,031**
New assets originated or purchased	711,422	–	–	**–**	**711,422**
Assets repaid	(619,020)	(17,523)	(9,989)	**–**	**(646,532)**
Transfers to Stage 1	7,730	(7,470)	(260)	**–**	**–**
Transfers to Stage 2	(54,807)	55,900	(1,093)	**–**	**–**
Transfers to Stage 3	(2,488)	(24,683)	27,171	**–**	**–**
Unwinding of discount	–	–	3,854	**–**	**3,854**
Recoveries	–	–	2,428	**–**	**2,428**
Amounts written off	–	–	(33,704)	**–**	**(33,704)**
Foreign exchange and other movements	90,975	128	158	**–**	**91,261**
At 31 December 2022	**545,994**	**24,385**	**45,381**	**–**	**615,760**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**256,678**	**13,518**	**49,362**	**319,558**
New assets originated or purchased	565,397	–	–	**565,397**
Assets repaid	(445,018)	(14,793)	(6,958)	**(466,769)**
Transfers to Stage 1	3,710	(3,482)	(228)	**–**
Transfers to Stage 2	(36,717)	37,493	(776)	**–**
Transfers to Stage 3	(2,450)	(17,969)	20,419	**–**
Unwinding of discount	–	–	3,614	**3,614**
Recoveries	–	–	626	**626**
Amounts written off	–	–	(11,484)	**(11,484)**
Foreign exchange and other movements	70,582	3,266	2,241	**76,089**
At 31 December 2021	**412,182**	**18,033**	**56,816**	**487,031**

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**7,956**	**5,643**	**46,545**	–	**60,144**
New assets originated or purchased	12,362	–	–	–	**12,362**
Assets repaid	(10,872)	(4,898)	(7,236)	–	**(23,006)**
Transfers to Stage 1	2,856	(2,713)	(143)	–	–
Transfers to Stage 2	(1,021)	1,675	(654)	–	–
Transfers to Stage 3	(96)	(2,713)	2,809	–	–
Unwinding of discount	–	–	3,854	–	**3,854**
Impact on period end ECL of exposure transferred between stages during the period	(2,746)	11,226	11,624	–	**20,104**
Recoveries	–	–	2,428	–	**2,428**
Amounts written off	–	–	(33,704)	–	**(33,704)**
Foreign exchange and other movements	2,052	955	3,006	–	**6,013**
At 31 December 2022	**10,491**	**9,175**	**28,529**	–	**48,195**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**4,848**	**4,143**	**43,459**	**52,450**
New assets originated or purchased	7,885	–	–	**7,885**
Assets repaid	(7,005)	(3,767)	(5,154)	**(15,926)**
Transfers to Stage 1	1,263	(1,151)	(112)	**–**
Transfers to Stage 2	(552)	959	(407)	**–**
Transfers to Stage 3	(123)	(1,151)	1,274	**–**
Unwinding of discount	–	–	3,614	**3,614**
Impact on period end ECL of exposures transferred between stages during the period	(1,212)	10,279	4,543	**13,610**
Recoveries	–	–	626	**626**
Amounts written off	–	–	(11,484)	**(11,484)**
Foreign exchange and other movements	2,852	(3,669)	10,186	**9,369**
At 31 December 2021	**7,956**	**5,643**	**46,545**	**60,144**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to retail clients with regular inflows during the year ended 31 December 2022 and 31 December 2021 is as follows:

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	362,927	1,379	33,044	**–**	**397,350**
New assets originated or purchased	638,110	–	–	**–**	**638,110**
Assets repaid	(668,517)	(2,506)	(41,559)	**–**	**(712,582)**
Transfers to Stage 1	7,220	(4,097)	(3,123)	**–**	**–**
Transfers to Stage 2	(11,644)	12,122	(478)	**–**	**–**
Transfers to Stage 3	(49,236)	(5,175)	54,411	**–**	**–**
Unwinding of discount	**–**	**–**	56	**–**	**56**
Recoveries	**–**	**–**	273	**–**	**273**
Amounts written off	**–**	**–**	(30,622)	**–**	**(30,622)**
Foreign exchange and other movements	66,822	399	5,204	**–**	**72,425**
At 31 December 2022	**345,682**	**2,122**	**17,206**	**–**	**365,010**

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**444,813**	**2,420**	**23,239**	**470,472**
New assets originated or purchased	651,995	–	–	**651,995**
Assets repaid	(809,806)	(4,172)	(25,483)	**(839,461)**
Transfers to Stage 1	5,267	(3,356)	(1,911)	**–**
Transfers to Stage 2	(10,637)	10,833	(196)	**–**
Transfers to Stage 3	(37,493)	(5,035)	42,528	**–**
Unwinding of discount	–	–	547	**547**
Recoveries	–	–	1,373	**1,373**
Amounts written off	–	–	(8,505)	**(8,505)**
Foreign exchange and other movements	118,788	689	1,452	**120,929**
At 31 December 2021	**362,927**	**1,379**	**33,044**	**397,350**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**11,445**	**522**	**30,941**	–	**42,908**
New assets originated or purchased	16,316			–	**16,316**
Assets repaid	(18,704)	(1,045)	(30,154)	–	**(49,903)**
Transfers to Stage 1	4,218	(1,653)	(2,565)	–	–
Transfers to Stage 2	(315)	697	(382)	–	–
Transfers to Stage 3	(1,424)	(1,653)	3,077	–	–
Unwinding of discount			56	–	**56**
Impact on period end ECL of exposures transferred between stages during the period	(4,030)	3,622	28,535	–	**28,127**
Recoveries	–	–	273	–	**273**
Amounts written off	–	–	(30,622)	–	**(30,622)**
Foreign exchange and other movements	3,707	404	16,237	–	**20,348**
At 31 December 2022	**11,213**	**894**	**15,396**	–	**27,503**

Loans to retail clients with regular inflows	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**13,599**	**957**	**19,488**	**34,044**
New assets originated or purchased	14,789	–	–	**14,789**
Assets repaid	(19,832)	(1,690)	(18,013)	**(39,535)**
Transfers to Stage 1	2,705	(1,150)	(1,555)	–
Transfers to Stage 2	(232)	389	(157)	–
Transfers to Stage 3	(1,032)	(1,150)	2,182	–
Unwinding of discount	–	–	547	**547**
Impact on period end ECL of exposures transferred between stages during the period	(2,572)	2,661	25,790	**25,879**
Recoveries	–	–	1,373	**1,373**
Amounts written off	–	–	(8,505)	**(8,505)**
Foreign exchange and other movements	4,020	505	9,791	**14,316**
At 31 December 2021	**11,445**	**522**	**30,941**	**42,908**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Micro loans during the year ended 31 December 2022 and 31 December 2021 is as follows:

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**218,620**	**20,782**	**22,068**	–	**261,470**
New assets originated or purchased	260,286	–	–	–	**260,286**
Assets repaid	(210,765)	(11,066)	(5,065)	–	**(226,896)**
Transfers to Stage 1	5,041	(4,809)	(232)	–	–
Transfers to Stage 2	(16,631)	16,784	(153)	–	–
Transfers to Stage 3	(1,028)	(6,994)	8,022	–	–
Unwinding of discount	–	–	1,115	–	**1,115**
Recoveries	–	–	520	–	**520**
Amounts written off	–	–	(5,841)	–	**(5,841)**
Foreign exchange and other movements	29,474	(816)	(367)	–	**28,291**
At 31 December 2022	**284,997**	**13,881**	**20,067**	–	**318,945**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**127,773**	**23,958**	**14,577**	**166,308**
New assets originated or purchased	264,540	–	–	**264,540**
Assets repaid	(181,608)	(15,577)	(4,912)	**(202,097)**
Transfers to Stage 1	2,017	(1,902)	(115)	**–**
Transfers to Stage 2	(21,024)	21,448	(424)	**–**
Transfers to Stage 3	(4,354)	(8,481)	12,835	**–**
Unwinding of discount	–	–	2,013	**2,013**
Recoveries	–	–	475	**475**
Amounts written off	–	–	(1,722)	**(1,722)**
Foreign exchange and other movements	31,276	1,336	(659)	**31,953**
At 31 December 2021	**218,620**	**20,782**	**22,068**	**261,470**

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**7,441**	**4,866**	**13,946**	**–**	**26,253**
New assets originated or purchased	5,505			**–**	**5,505**
Assets repaid	(4,578)	(2,524)	(3,190)	**–**	**(10,292)**
Transfers to Stage 1	1,261	(1,137)	(124)	**–**	**–**
Transfers to Stage 2	(357)	447	(90)	**–**	**–**
Transfers to Stage 3	(33)	(1,137)	1,170	**–**	**–**
Unwinding of discount	**–**	**–**	1,115	**–**	**1,115**
Impact on period end ECL of exposures transferred between stages during the period	(1,211)	4,202	2,747	**–**	**5,738**
Recoveries	**–**	**–**	520	**–**	**520**
Amounts written off	**–**	**–**	(5,841)	**–**	**(5,841)**
Foreign exchange and other movements	(2,089)	(105)	1,915	**–**	**(279)**
At 31 December 2022	**5,939**	**4,612**	**12,168**	**–**	**22,719**

Micro loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**3,396**	**5,714**	**10,055**	**19,165**
New assets originated or purchased	8,020	–	–	**8,020**
Assets repaid	(4,879)	(3,388)	(2,773)	**(11,040)**
Transfers to Stage 1	798	(736)	(62)	**–**
Transfers to Stage 2	(869)	1,090	(221)	**–**
Transfers to Stage 3	(961)	(736)	1,697	**–**
Unwinding of discount	–	–	2,013	**2,013**
Impact on period end ECL of exposures transferred between stages during the period	(745)	5,118	1,492	**5,865**
Recoveries	–	–	475	**475**
Amounts written off	–	–	(1,722)	**(1,722)**
Foreign exchange and other movements	2,681	(2,196)	2,992	**3,477**
At 31 December 2021	**7,441**	**4,866**	**13,946**	**26,253**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to residential mortgage loans during the year ended 31 December 2022 and 31 December 2021 is as follows:

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*		*Total*
Gross carrying value as at 1 January 2022	**157,179**	**7,260**	**1,666**	–	**166,105**
New assets originated or purchased	101,861	–	–	–	**101,861**
Assets repaid	(65,085)	(3,665)	(1,325)	–	**(70,075)**
Transfers to Stage 1	2,207	(2,207)	–	–	–
Transfers to Stage 2	(5,558)	5,799	(241)	–	–
Transfers to Stage 3	(2)	(2,140)	2,142	–	–
Unwinding of discount	–	–	58	–	**58**
Recoveries	–	–	62	–	**62**
Amounts written off	–	–	(334)	–	**(334)**
Foreign exchange and other movements	10,612	(488)	(624)	–	**9,500**
At 31 December 2022	**201,214**	**4,559**	**1,404**	–	**207,177**

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**144,370**	**7,034**	**2,035**	**153,439**
New assets originated or purchased	76,855	–	–	**76,855**
Assets repaid	(68,782)	(4,164)	(1,304)	**(74,250)**
Transfers to Stage 1	1,197	(1,197)	–	–
Transfers to Stage 2	(6,627)	7,334	(707)	–
Transfers to Stage 3	–	(1,608)	1,608	–
Unwinding of discount	–	–	110	**110**
Recoveries	–	–	94	**94**
Amounts written off	–	–	(14)	**(14)**
Foreign exchange and other movements	10,166	(139)	(156)	**9,871**
At 31 December 2021	**157,179**	**7,260**	**1,666**	**166,105**

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**1,066**	**1,701**	**1,144**	–	**3,911**
New assets originated or purchased	375		–	–	**375**
Assets repaid	(274)	(945)	(659)	–	**(1,878)**
Transfers to Stage 1	462	(462)	–	–	–
Transfers to Stage 2	(22)	145	(123)	–	–
Transfers to Stage 3	(2)	(461)	463	–	–
Unwinding of discount	–	–	58	–	**58**
Impact on period end ECL of exposures transferred between stages during the period	(454)	1,386	319	–	**1,251**
Recoveries	–	–	62	–	**62**
Amounts written off	–	–	(334)	–	**(334)**
Foreign exchange and other movements	(591)	(395)	(9)	–	**(995)**
At 31 December 2022	**560**	**969**	**921**	–	**2,450**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Residential mortgage loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**1,703**	**1,346**	**1,013**	**4,062**
New assets originated or purchased	523	–	–	**523**
Assets repaid	(552)	(835)	(654)	**(2,041)**
Transfers to Stage 1	157	(157)	–	**–**
Transfers to Stage 2	(81)	378	(297)	**–**
Transfers to Stage 3	(6)	(157)	163	**–**
Unwinding of discount			110	**110**
Impact on period end ECL of exposures transferred between stages during the period	(87)	1,421	421	**1,755**
Recoveries	–	–	94	**94**
Amounts written off	–	–	(14)	**(14)**
Foreign exchange and other movements	(591)	(295)	308	**(578)**
At 31 December 2021	**1,066**	**1,701**	**1,144**	**3,911**

An analysis of changes in the gross carrying value and corresponding ECL in relation to gold pawn loans during the year ended 31 December 2022 and 31 December 2021 is as follows:

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**140,958**	**559**	**796**	–	**142,313**
New assets originated or purchased	225,836	–	–	–	**225,836**
New assets purchased from VTB	25,434	–	–	135	**25,569**
Assets repaid	(247,492)	(911)	(2,452)	(55)	**(250,910)**
Transfers to Stage 1	3,211	(2,261)	(950)	–	–
Transfers to Stage 2	(7,144)	7,144	–	–	–
Transfers to Stage 3	–	(4,630)	4,630	–	–
Unwinding of discount	–	–	25	–	**25**
Recoveries	–	–	60	–	**60**
Amounts written off	–	–	–	–	–
Foreign exchange and other movements	30,547	1,244	305	13	**32,109**
At 31 December 2022	**171,350**	**1,145**	**2,414**	**93**	**175,002**

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**121,247**	**452**	**516**	**122,215**
New assets originated or purchased	254,600	–	–	**254,600**
Assets repaid	(255,183)	(486)	(1,669)	**(257,338)**
Transfers to Stage 1	1,188	(843)	(345)	**–**
Transfers to Stage 2	(3,450)	3,450	–	**–**
Transfers to Stage 3	–	(2,128)	2,128	**–**
Unwinding of discount	–	–	5	**5**
Recoveries	–	–	193	**193**
Amounts written off	–	–	(1)	**(1)**
Foreign exchange and other movements	22,556	114	(31)	**22,639**
At 31 December 2021	**140,958**	**559**	**796**	**142,313**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**44**	**1**	**26**	–	**71**
New assets originated or purchased	86	–	–	–	**86**
New assets purchased from VTB	96	–	–	–	**96**
Assets repaid	(753)	(8)	(252)	–	**(1,013)**
Transfers to Stage 1	145	(52)	(93)	–	–
Transfers to Stage 2	(152)	152	–	–	–
Transfers to Stage 3	–	(52)	52	–	–
Unwinding of discount	–	–	25	–	**25**
Impact on period end ECL of exposures transferred between stages during the period	(97)	93	75	–	**71**
Recoveries	–	–	60	–	**60**
Amounts written off	–	–	–	–	–
Foreign exchange and other movements	1,279	(93)	397	5	**1,588**
At 31 December 2022	648	41	290	**5**	**984**

Gold pawn loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**150**	**–**	**23**	**173**
New assets originated or purchased	34	–	–	**34**
Assets repaid	(165)	–	(17)	**(182)**
Transfers to Stage 1	4	(2)	(2)	**–**
Transfers to Stage 2	(2)	2	–	**–**
Transfers to Stage 3	–	(2)	2	**–**
Unwinding of discount	–	–	5	**5**
Impact on period end ECL of exposures transferred between stages during the period	(4)	5	5	**6**
Recoveries	–	–	193	**193**
Amounts written off	–	–	(1)	**(1)**
Foreign exchange and other movements	27	(2)	(182)	**(157)**
At 31 December 2021	**44**	**1**	**26**	**71**

Collateral

In absence of collateral or other credit enhancements, ECL in respect of individually assessed Stage 3 loans to customers as of 31 December 2022 would have been higher by ₾ 290 (as of 31 December 2021: 1,072). The Bank does not perform collateral evaluation for the collectively assessed loans.

Concentration of loans to customers

As of 31 December 2022, the concentration of loans granted by the Bank to ten largest third party borrowers comprised ₾ 179,071 accounting for 7.05% of the gross loan portfolio of the Bank (2021: ₾ 188,983 and 9.35% respectively). An allowance of ₾ 1,714 (2021: ₾ 3,773) was established against these loans.

Loans have been extended to the following types of customers:

	2022	*2021*
Individuals	1,697,088	1,451,897
Private companies	844,489	578,733
Loans to customers, gross	**2,541,577**	**2,030,630**
Less – allowance for loan impairment	(115,154)	(150,909)
Loans to customers, net	**2,426,423**	**1,879,721**

(thousands of Georgian Lari)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans are made principally within Georgia in the following industry sectors:

	2022	*2021*
Individuals	1,697,088	1,451,897
Trade and service	483,333	310,938
Agricultural	124,926	34,260
Construction	84,119	65,442
Energy	46,794	29,471
Mining	31,139	26,029
Healthcare	29,087	36,589
Tourism and hospitality	11,879	16,117
Manufacturing	11,143	15,885
Non–banking credit organization	5,610	33,637
Transportation and communication	4,995	1,648
Other	11,464	8,717
Loans to customers, gross	**2,541,577**	**2,030,630**
Less – allowance for loan impairment	(115,154)	(150,909)
Loans to customers, net	**2,426,423**	**1,879,721**

9. Investment securities

Investment securities comprise:

Debt securities at amortised cost	*2022*	*2021*
Treasury bonds of the Ministry of Finance of Georgia	213,032	240,106
Treasury bills of the Ministry of Finance of Georgia	18,435	–
U.S Treasury bills	53,548	–
Corporate bonds	15,091	–
Certificates of deposit of the NBG	2,978	–
	303,084	**240,106**
Less – allowance for impairment	(473)	(452)
Debt securities at amortised cost	**302,611**	**239,654**
Debt securities at fair value through other comprehensive income	**66,870**	–
Debt securities	**369,481**	**239,654**

As of 31 December 2022, ₾ 154,938 (₾ 169,434 as of 31 December 2021) worth of investment securities were pledged as a collateral for the loan from the National Bank of Georgia.

(thousands of Georgian Lari)

9. Investment securities (continued)

An analysis of changes in the gross carrying value in relation to investment securities during the year ended 31 December 2022 and 31 December 2021 is as follows:

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*U.S treasury bills*	*Total*
Gross carrying value as at 1 January 2022	**–**	**–**	**–**	**240,106**	**–**	**240,106**
New assets originated	15,091	8,000	26,791	42,896	54,859	**147,637**
Assets repaid	–	(5,001)	(7,500)	(70,677)	(168)	**(83,346)**
Other movements	–	(21)	(856)	707	(1,143)	**(1,313)**
At 31 December 2022	**15,091**	**2,978**	**18,435**	**213,032**	**53,548**	**303,084**

	Certificates of deposits of National Bank of Georgia	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
Gross carrying value as at 1 January 2021	**4,543**	**28,772**	**238,441**	**271,755**
New assets originated	150	–	20,500	**20,650**
Assets repaid	(4,740)	(30,063)	(18,137)	**(52,940)**
Other movements	47	1,291	(698)	**640**
At 31 December 2021	**–**	**–**	**240,106**	**240,106**

All balances of investment securities are allocated to stage 1. An analysis of changes in the ECL allowances during the year ended 31 December 2022 is, as follows:

	Corporate bonds	*Certificates of deposits of National Bank of Georgia*	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2022	–			**(452)**	**(452)**
New assets originated	(66)	(14)	(46)	(75)	**(201)**
Assets repaid	–	9	13	133	**155**
Change in ECL rate	–	–	–	25	**25**
Other movements	–	–	1	(1)	–
At 31 December 2022	**(66)**	**(5)**	**(32)**	**(370)**	**(473)**

	Certificates of deposits of National Bank of Georgia	*Treasury bills of the Ministry of Finance of Georgia*	*Treasury bonds of the Ministry of Finance of Georgia*	*Total*
ECL as at 1 January 2021	**(9)**	**(53)**	**(502)**	**(564)**
New assets originated	–	–	(39)	**(39)**
Assets repaid	9	56	44	**109**
Change in ECL rate	–	–	43	**43**
Other movements	–	(3)	2	**(1)**
At 31 December 2021	**–**	**–**	**(452)**	**(452)**

(thousands of Georgian Lari)

9. Investment securities (continued)

Debt securities at fair value through profit or loss

	Treasury bills of the Ministry of Finance of Georgia
Gross carrying value as at 1 January 2022	**–**
New assets originated	62,914
Assets repaid	–
Other movements	2,430
Revaluation	1,526
At 31 December 2022	**66,870**

10. Property and equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve–ments*	*Total*
Cost or revalued amount						
31 December 2021	**93,004**	**110,763**	**40,263**	**17,377**	**14,276**	**275,683**
Additions	442	6,399	7,925	369	1,673	**16,808**
Disposals	–	(402)	(103)	(279)	(129)	**(913)**
Revaluation	(868)	–	–	–	–	**(868)**
Transfer	–	–	–	–	–	–
31 December 2022	**92,578**	**116,760**	**48,085**	**17,467**	**15,820**	**290,710**
Accumulated depreciation and impairment						
31 December 2021	**1,818**	**70,342**	**31,843**	**15,862**	**7,747**	**127,612**
Depreciation charge	1,863	8,319	3,257	786	1,275	**15,500**
Disposals	–	(397)	(58)	(253)	(87)	**(795)**
Revaluation	(3,681)	–	–	–	–	**(3,681)**
31 December 2022	–	**78,264**	**35,042**	**16,395**	**8,935**	**138,636**
Net book value						
31 December 2021	**91,186**	**40,421**	**8,420**	**1,515**	**6,529**	**148,071**
31 December 2022	**92,578**	**38,496**	**13,043**	**1,072**	**6,885**	**152,074**

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improve–ments*	*Total*
Cost or revalued amount						
31 December 2020	**92,174**	**107,194**	**38,607**	**17,693**	**16,143**	**271,811**
Additions	830	3,837	2,029	9	244	**6,949**
Disposals	–	(268)	(373)	(325)	(2,111)	**(3,077)**
Revaluation	–	–	–	–	–	**–**
Transfer	–	–	–	–	–	**–**
31 December 2021	**93,004**	**110,763**	**40,263**	**17,377**	**14,276**	**275,683**
Accumulated depreciation and impairment						
31 December 2020	**–**	**62,156**	**29,757**	**15,221**	**7,651**	**114,785**
Depreciation charge	1,817	8,453	2,455	967	1,314	**15,006**
Disposals	–	(267)	(369)	(325)	(1,218)	**(2,179)**
Revaluation	–	–	–	–	–	**–**
31 December 2021	**1,817**	**70,342**	**31,843**	**15,863**	**7,747**	**127,612**
Net book value						
31 December 2020	**92,174**	**45,038**	**8,850**	**2,472**	**8,492**	**157,026**
31 December 2021	**91,187**	**40,421**	**8,420**	**1,514**	**6,529**	**148,071**

(thousands of Georgian Lari)

10. Property and equipment (continued)

Buildings and land of the Bank are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2022.. As a result of revaluation of land and buildings, the carrying value increased by ₾ 2,813 out of which ₾ 479 applied to previously impaired buildings, therefore respective revaluation gain was recognized in the statement of profit or loss.

The Bank's buildings are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2022 and 2021.

If the land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2022	*2021*
Cost	66,344	65,714
Accumulated depreciation and impairment	(15,418)	(14,091)
Net carrying amount	**50,926**	**51,623**

11. Intangible assets

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

	Computer software and licenses
Cost	
31 December 2020	**98,400**
Additions	15,672
31 December 2021	**114,072**
Additions	13,494
Disposal	(722)
31 December 2022	**126,844**
Accumulated amortization	
31 December 2020	**46,062**
Amortisation charge	12,117
31 December 2021	**58,179**
Amortisation charge	11,664
Disposal	(158)
31 December 2022	**69,685**
Net book value	
31 December 2020	**52,338**
31 December 2021	**55,893**
31 December 2022	**57,159**

(thousands of Georgian Lari)

12. Leases

Set out below, are the carrying amounts of the Bank's right–of–use assets and lease liabilities and the movements during the period:

	Right–of–use assets – buildings	*Lease liabilities*
As at 1 January 2022	**32,964**	**35,897**
Additions	7,776	7,776
Depreciation expense	(7,368)	–
Interest expense	–	1,471
Payments	–	(8,558)
Disposal	(5,957)	(3,662)
Depreciation of disposal	2,726	–
Foreign exchange	–	(4,183)
As at 31 December 2022	**30,141**	**28,741**

	Right–of–use assets – buildings	*Lease liabilities*
As at 1 January 2021	**34,419**	**40,958**
Additions	13,773	13,773
Depreciation expense	(7,129)	–
Interest expense	–	1,841
Payments	–	(9,130)
Other income	–	(133)
Disposal	(13,036)	(9,668)
Depreciation of disposal	4,937	–
Foreign exchange	–	(1,744)
As at 31 December 2021	**32,964**	**35,897**

Bank recognized rent expense from short–term leases of GEL 925 (2021: of GEL 2,016). The Bank had total cash outflows for leases of GEL 10,694 in 2022 (2021: of GEL 11,106).

13. Taxation

The corporate income tax expense comprised:

	2022	*2021*
Current year tax charge	5,250	–
Deferred tax charge – origination and reversal of temporary differences	17,181	3,106
Income tax expense	**22,431**	**3,106**
Deferred tax charge effect on OCI	1,549	–
Income tax charge on total comprehensive income	**23,980**	**3,106**

On 12 June 2018 amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance business became effective. The change implied a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023. On 16 December 2022 an amendment to the corporate tax code was passed into law, abolishing the expected transition to taxation on distributed earning from 1 January 2023. According to the amendments, effective from 1 January 2023, existing taxation rules for financial institutions, including banks, will be maintained. At the same time, corporate income tax rate will be increased from 15% to 20% from 1 January 2013. In addition, taxable interest income and deductible expected credit losses on loans to customers (ECL) will be defined as per IFRS, instead of local NBG regulations. Transition differences in ECL will be taxed one–off at 15%.

(thousands of Georgian Lari)

13. Taxation (continued)

The change had an immediate impact on deferred tax asset and liability balances attributable to previously recognized temporary differences arising from prior periods. As at 31 December 2022, the deferred tax assets and liabilities were remeasured in line with the new amendments to the law. The change resulted in a material one–off deferred tax charge as previously the Bank recognised deferred taxes only to the extent they were expected to realise before 1 January 2023.

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

	2022	*2021*
Profit before income tax expense	**85,593**	**45,601**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**12,839**	**6,840**
Non–taxable income	(5,300)	(4,550)
Effect from changes in future tax rates and other movements	14,390	(302)
Non–tax deductible expenses	502	1,118
Income tax expense	**22,431**	3,106

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

	2020	*In the statement of profit or loss*	*In the statement of other comprehen–sive income*	*2021*	*In the statement of profit or loss*	*In the statement of other comprehen–sive income*	*2022*
Tax effect of deductible temporary differences							
Tax loss carried forward	5,765	(5,225)	–	540	(540)	–	–
Other assets	650	(35)	–	615	1,000	–	1,615
Lease liabilities	6,143	(757)	–	5,386	362	–	5,748
Other liabilities	513	1,042	–	1,555	339	–	1,894
Deferred tax asset	**13,071**	**(4,975)**	**–**	**8,096**	**1,161**	**–**	**9,257**
Tax effect of taxable temporary differences							
Loans to customers	(1,208)	320	–	(888)	(167)	–	(1,055)
Right of use assets	(5,163)	218	–	(4,945)	(1,083)	–	(6,028)
Property and equipment, and intangible assets	(4,429)	1,331	–	(3,098)	(17,092)	(1,549)	(21,739)
Other assets	–	–	–	–	–	–	–
Deferred tax liabilities	**(10,800)**	**1,869**	**–**	**(8,931)**	**(18,342)**	**(1,549)**	**(28,822)**
Net deferred tax assets/ (liabilities)	**2,271**	**(3,106)**	**–**	**(835)**	**(17,181)**	**(1,549)**	**(19,565)**

(thousands of Georgian Lari)

14. Other assets, prepayments and other liabilities

Other assets comprise

	2022	*2021*
Receivables from debtors	14,501	3,293
Receivables from Revenue Services for tax free services to non–resident customers	10,921	907
Receivables from remittances systems operators	4,664	2,483
Inventories	4,333	2,823
Investment properties	2,008	3,491
Repossessed property	1,553	1,054
Receivable from guarantees paid	950	950
Prepaid taxes other than income tax	917	825
Receivable from insurance claims	310	2,654
Derivative asset	7	1,093
Other	4,650	1,804
Total	**44,814**	**21,377**
Less – allowance for impairment of other assets	(4,442)	(3,483)
Other assets	**40,372**	**17,894**

Investment properties

Investment properties primarily comprise of class B office space located in downtown Zugdidi and several other properties located outside of Tbilisi, one of which was sold during 2022 for ₾ 1,144 accounting loss of ₾ 154.

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The latest revaluation date was 31 December 2022. The valuation was performed by an accredited independent valuator with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Refer to *Note 26* for details.

The Bank's investment properties items are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2022 and 2021.

Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2022				*2021*			
	Notional amount		*Fair Value*		*Notional amount*		*Fair Value*	
	Asset	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*	*Asset*	*Liability*
Foreign exchange contracts								
Forwards and swaps – domestic	162,019	(156,936)	7	(5,175)	176,120	(176,916)	1,093	(318)
Forwards and swaps – foreign	–	(87,403)	–	(25,076)	–	(105,144)	–	(9,526)
Total derivative assets/liabilities	**162,019**	**(244,339)**	**7**	**(30,251)**	**176,120**	**(282,060)**	**1,093**	**(9,844)**

As of 31 December 2022, the Bank has positions in the derivative financial instrument currency forwards. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over–the–counter market.

The Bank's forward is classified to Level 2 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2022 and 2021.

(thousands of Georgian Lari)

14. Other assets, prepayments and other liabilities (continued)

Prepayments comprise

	2022	*2021*
Prepayments for fixed and intangible assets	4,266	2,148
Prepaid insurance	858	974
Prepayments for professional services	393	676
Prepaid rent	77	78
Other	716	813
Total prepayments	**6,310**	**4,689**

Other liabilities comprise

	2022	*2021*
Derivative liability (see above)	30,251	9,844
Payables for creditors	8,910	4,650
Bonus accrual	8,066	5,023
Taxes payable other than income tax	1,587	1,694
Provisions for loan commitments	1,428	1,258
Funds pending settlements	995	1,589
Sundry creditors	340	1,469
Provisions for losses from operating risks	12	883
Other	5,041	3,716
Other liabilities	**56,630**	**30,126**

15. Credit loss expense and other impairment and provisions

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

31 December 2022	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6 7	2717	–	–	–	27 **17**
Amounts due from credit institutions	7	16	–	–	–	16
Loans to customers at amortised cost	8	(5,693)	9,844	21,375	350	25,876
Debt securities measured at amortised cost	9	21	–	–	–	21
Total credit loss expense		**(5,629)**	**9,844**	**21,375**	**350**	**25,940**

31 December 2021	*Note*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	6	(18)	–	–	**(18)**
Amounts due from credit institutions	7	(470)	–	–	**(470)**
Loans to customers at amortised cost	8	**5,160**	**89**	**29,477**	**34,726**
Debt securities measured at amortised cost	9	(111)	–	–	**(111)**
Financial guarantees	20	89	–	–	**89**
Total credit loss expense		**4,650**	**89**	**29,477**	**34,216**

(thousands of Georgian Lari)

15. Credit loss expense and other impairment and provisions (continued)

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Provisions for losses from operating risks*	*Total*
31 December 2021	**3,483**	**883**	**4,366**
Charge	959	–	**959**
Payment	–	(871)	**(871)**
31 December 2022	**4,442**	**12**	**4,454**

	Other assets	*Provisions for losses from operating risks*	*Total*
31 December 2020	**2,974**	**3,381**	**6,355**
Charge	509	–	**509**
Payment	–	(2,498)	**(2,498)**
31 December 2021	**3,483**	**883**	**4,366**

Provisions for losses from operating risks are recorded in other liabilities.

The Bank is exposed to the risk of loss from its operations associated with misappropriation of assets. Management has a system of controls and monitoring to detect such activities, to reduce the risk of loss. Despite such controls, losses may still occur due to circumvention of controls by means of collusion and/or other planned actions by perpetrators. For such cases, the Bank holds active insurance policies. As at 31 December 2022 the Bank holds insurance policies with a risk coverage of GEL 5 million for losses from operating risks.

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2022	*2021*
Borrowings from the NBG	227,119	246,137
Borrowings from international financial institutions	74,389	97,753
Time deposits of local commercial banks	21,997	838
Current accounts	3,774	4,999
Amounts due to credit institutions	**327,279**	**349,727**

On 22 December 2022 the Bank obtained a loan from the NBG in amount of ₾ 26,900 maturing on 23 January 2023; and on 29 December 2022 – ₾ 200,000 maturing on 5 January 2023. The loans are issued under a collateral of investment securities (₾ 154,938, ref. to Note 9) and customer loans (₾ 72,623, ref. to Note 8).

In September 2020, the Bank entered into a USD 15 million (4.87%) loan agreement with the U.S. International Development Finance Corporation (DFC) and a EUR 15 million (Tranche 1 – USD 4,5 million with interest rate of 1.54% and Tranche 2 – USD 10,5 million with interest rate of 1.17%) loan agreement with the European Investment Bank (EIB) maturing in 2029 and 2027, respectively. During 2021 the Bank attracted new funds amounted to EUR 2,113 million (3,8%) and EUR 2,22 million (3.87%) from the Microfinance Enhancement Facility (MEF) maturing on 31 January 2025 and from the EIB amounted to EUR 2,5 million (1.36%) maturing on 17 December 2026.

(thousands of Georgian Lari)

17. Amounts due to customers

Amounts due to customers comprise:

	2022	*2021*
Current accounts	1,408,916	1,291,726
Time deposits (including certificates of deposits)	1,280,757	941,942
Amounts due to customers	**2,689,673**	**2,233,668**
Held as security against guarantees issued *(Note 20)*	4,861	1,327

At 31 December 2022, amounts due to customers of ₾ 527,332 (19.6%) were due to the ten largest customers (31 December 2021: ₾ 518,705 (23.2%)).

The amounts due to customers includes deposits received from VTB Bank Georgia (Note 8).

Amounts due to customers include accounts with the following types of customers:

	2022	*2021*
Individuals	1,351,722	1,220,367
State and public sector	862,627	572,697
Private enterprises	475,324	440,604
Amounts due to customers	**2,689,673**	**2,233,668**

Amounts due to customers by economic sector are as follows:

	2022	*2021*
Individuals	1,351,722	1,220,367
State and public sector	862,627	572,697
Real estate constructions	176,177	257,327
Non–banking financial organisations	110,434	70,929
Trade and service	37,636	12,655
Transportation and communication	27,442	21,171
Agriculture	13,142	7,380
Energy	10,552	1,544
Mining industry	48	67
Other	99,893	69,531
Amounts due to customers	**2,689,673**	**2,233,668**

18. Subordinated debt

The Bank issues unsecured Subordinated Loan Contracts (the "SLCs") to high–net–worth individuals and corporate clients. The Bank does not have subordinated liabilities to entities, that exceed 10% of total subordinated debt. The primary reason for the issuance of the SLCs is to attract Tier 2 qualified capital to support the Bank's capitalization.

As of 31 December 2022, the Bank had ₾ 98,774 (31 December 2021: ₾ 112,460) of subordinated debt outstanding, of which the amortised value qualified for the inclusion in the Tier 2 capital under the NBG Basel III requirements, was ₾ 57,038 (31 December 2021: ₾ 74,104).

(thousands of Georgian Lari)

18. Subordinated debt (continued)

	Subordinated debt
Carrying amount at 31 December 2020	**113,572**
Proceeds from issue	7,504
Repayment	(2,610)
Foreign currency translation	(6,012)
Other	6
Carrying amount at 31 December 2021	**112,460**
Foreign currency translation	(13,632)
Other	(54)
Carrying amount at 31 December 2022	**98,774**

19. Equity

Share capital

As of 31 December 2022, the authorised share capital of the Bank comprised 7,500,000,000 ordinary shares, of which 5,502,254,354 were issued, 5,462,874,502 ordinary shares were fully paid of which 1,013,828,327 shares represented treasury shares (31 December 2021: the authorised share capital was 7,500,000,000 ordinary shares, of which 5,502,254,354 were issued and 5,462,874,502 were fully paid including 1,013,828,327 treasury shares). Each share has nominal value of ₾ 0.01. From the total number of ordinary shares issued, 39,379,845 (2021: 39,379,845) shares have been sold on a deferred payment basis to Stichting Liberty ESOP and are attributable to the share–based compensation programme. Grants under these shares have vested prior to 1 January 2020. The Bank has no current employee share option plans in 2022 or 2021.

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

As of 31 December 2022 and 2021, the book value per ordinary share comprised ₾ 0.0910 and ₾ 0.0769, respectively.

Convertible preferred shares

The convertible preferred shares are perpetual and can be converted, at the holder's discretion, into ordinary shares of the Bank at the conversion price based on 1.05 times the equity book value of the Bank per ordinary share outstanding (net of any treasury shares) as of the end of the preceding calendar year.

The dividend rate on the convertible preferred shares is 17% per annum, payable annually, subject to the AGM approval in each given year. The dividends are non–cumulative.

The ability to pay dividends is subject to the Bank's financial condition and results of operations and compliance with the prudential capital adequacy requirements and may be restricted by the NBG.

Basic/diluted earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period (net of any treasury shares). Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding of the effect of all dilutive potential ordinary shares (but ignoring any treasury shares), which comprise convertible preferred shares.

(thousands of Georgian Lari)

19. Equity (continued)

Basic/diluted earnings per share (continued)

In 2022, net income attributable to ordinary shareholders of the Bank comprised ₾ 62,386 (2021: ₾ 41,575) and the weighted average number of ordinary shares outstanding during the year was 4,488,426,027 (2021: 4,488,426,027), resulting in earnings per share of ₾ 0.014 for 2022 (2021: ₾ 0.00926).

At 31 December 2022, the convertible preferred shares did not have a dilutive effect as the conversion price of ₾ 0.09 exceeded the quoted weighted average market price for the period of ₾ 0.014. At 31 December 2021, the convertible preferred shares did not have a dilutive effect as the conversion price of ₾ 0.08 exceeded the quoted weighted average market price for the period ₾ 0.014. Thus, the potential dilution did not include the potential effect from the conversion of 4,565,384 convertible preferred shares into ordinary shares as of 31 December 2022.

Dividends

The Bank did not pay dividends on its ordinary shares in 2022 or 2021. The Bank paid dividends on the convertible preferred shares in the amount of ₾ 776 in 2022 (2021: ₾776), ₾ 0.17 per share.

Reserves

Movements in reserves were as follows:

	Fair value reserve for investment securities at FVOCI	*Revaluation reserve for property and equipment*
At 31 December 2020	–	**22,602**
Revaluation reserve, net of tax	–	–
Depreciation of revaluation reserve, net of tax	–	(461)
At 31 December 2021	**–**	**22,141**
Revaluation reserve, net of tax	1,526	785
Depreciation of revaluation reserve, net of tax	–	(498)
At 31 December 2022	**1,526**	**22,428**

Nature and purpose of other reserves

Fair value reserve for investment securities at FVOCI

This reserve records fair value changes on investment securities.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of the buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

20. Commitments and contingencies

Operating environment

As an emerging market, Georgia does not possess a well–developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Supervisory Board, these steps contribute to mitigate the risks of doing business in Georgia.

(thousands of Georgian Lari)

20. Commitments and contingencies (continued)

Operating environment (continued)

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Legal

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

Financial commitments and contingencies

The Bank's commitments and contingencies comprised the following:

	2022	*2021*
Credit related commitments		
Guarantees	38,778	17,293
Undrawn loan commitments	125,258	121,888
	164,036	**139,181**
Capital expenditure commitments	1,807	3,733
Commitments and contingencies	**165,843**	**142,914**
Provisions for ECL for credit related commitments *(Note 14)*	1,428	1,258
Cash held as security against guarantees issued *(Note 17)*	4,861	1,327

As of 31 December 2022, and 2021, the Bank had Bankers Blanket Bond insurance, Directors and Officers liability insurance, and Property and Vehicle insurance coverage for the operating losses with the insurance limit of GEL 5 million.

All commitments are allocated to stage 1 and there were no significant movements in ECL during the year.

21. Net fee and commission income

Net fee and commission income comprise:

	2022	*2021*
Plastic card operations	24,819	18,456
Settlements operations	10,092	9,055
Remittances	6,200	2,750
Cash operations	3,521	2,174
Fee income received from bill payments	2,240	2,019
Guarantees and letters of credit	706	209
Other	91	72
Fee and commission income	**47,669**	**34,735**
Plastic card operations	(15,461)	(12,497)
Settlements operations	(1,441)	(1,068)
Cash operations	(1,130)	(371)
Fee expense paid for bill payments	(587)	(432)
Guarantees and letters of credit	(130)	(146)
Fee and commission expense	**(18,749)**	**(14,514)**
Net fee and commission income	**28,920**	**20,221**

(thousands of Georgian Lari)

21. Net fee and commission income (continued)

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mostly represented by fee and commission income, including income from guarantees. Revenue from contracts with customers recognized in the statement of profit or loss for the year ended 31 December 2022 amounted to ₾ 47,669 (2021: ₾ 34,735).

The Bank applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

22. Net gains/(losses) from foreign currencies

	2022	*2021*
Dealing	22,844	7,084
Net result from foreign currency derivatives	(13,923)	(4,540)
Translation differences	(2,623)	(3,951)
	6,298	**(1,407)**

23. Other income

Other income comprises:

	2022	*2021*
Gain from revaluation of PPE	479	–
Effect from termination of lease contracts	437	1,715
Income from rent	210	123
Income from insurance claims	162	2,732
Gain from sale of assets	16	254
Income from state subsidy related to COVID–19	–	1,884
Other	881	2,646
Total other income	**2,185**	**9,354**

Income from penalty on late payments on customer loans and advances was reclassified to interest income from loans to customers in standalone financial statements for the year ended 31 December 2022. Presentation in comparative standalone statement of comprehensive income was amended accordingly to conform with current period presentation, resulting in increase in interest income from loans to customers and decrease in other income by GEL 9,030 as compared to amounts reported in 2021 standalone financial statements.

24. Personnel and general and administrative expenses

Personnel and general and administrative expenses comprise:

	2022	*2021*
Salaries	78,978	66,312
Variable monthly bonuses	14,459	8,323
Performance based discretionary bonus pool	6,943	6,581
Personnel expenses	**100,380**	**81,216**

(thousands of Georgian Lari)

24. Personnel and general and administrative expenses (continued)

Average number of employees for the year:

	2022	*2021*
Permanent employment		
Top Management	6	4
Middle Management	135	167
Other employees	4,672	4,797
Temporary employment		
Other employees	887	743
Total	**5,700**	**5,711**

	2022	*2021*
Repair and maintenance	9,875	9,187
Marketing and advertising	7,590	6,408
Communications	3,899	3,507
Utility expense	3,763	3,624
Office supplies	3,568	2,433
Legal and other professional services	3,325	5,130
Occupancy and rent	3,041	2,781
Operating taxes	2,542	2,552
Insurance	1,793	1,625
Corporate hospitality and entertainment	875	488
Security	651	782
Travel expenses	558	390
Audit, audit related and other service expenses	500	523
Other	3,130	2,471
General and administrative expenses	**45,110**	**41,901**

Remuneration of the Bank's auditor for the years ended 31 December 2022 and 2021 comprises (net of VAT):

	2022	*2021*
Fees for the audit of the Bank's annual financial statements for the year ended 31 December	308	353
Expenditures for other professional services	116	135
Total fees and expenditures	**424**	**488**

Fees and expenditures payable to other auditors and audit firms in respect of other professional services comprised ₾ 137 (2021: ₾ 107).

25. Risk management

Introduction

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.

(thousands of Georgian Lari)

25. Risk management (continued)

Introduction (continued)

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.

Risk management framework and structure

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 RAS.

The Bank's risk management policies are established to identify and analyse 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 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. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Audit Committee is assisted in these functions by Internal Audit.

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

All committees have representatives of all relevant business units and report regularly to the Management Board.

25. Risk management (continued)

Risk management framework and structure (continued)

Business lines represent the primary owners of risks affecting daily activities and operations within the Bank. Business processes incorporate controlling activities performed by the relevant risk unit representatives. Units with risk management functions represent the second line of defense. The following departments are responsible for day–to–management of credit, liquidity, market, operational and other financial risks:

- ► Enterprise Risk Management;
- ► Credit Underwriting;
- ► Credit Administration;
- ► Credit Controlling;
- ► Collections;
- ► Operational Risk Management;
- ► Information Security.

Anti–Money Laundering ("AML") is managed by AML Department and Compliance Risks are managed by Compliance Department. Collections function is divided into two broad sub–functions, each responsible for leading and monitoring collection process per types of outstanding receivables.

Business lines represent the primary owners of risks affecting daily activities and operations within the Bank. Business processes incorporate day–to–day involvement of risk management representatives, with focus on risk identification, analysis, evaluation and treatment.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience.

Monitoring and controlling risks is primarily performed based on limits established by the RAS. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. Senior management assesses the appropriateness of the allowance for expected credit losses on a monthly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up–to–date information.

Risk mitigation

The Bank uses collaterals (precious metals, real estate, deposits, securities, movable property, receivables and company shares) and diversification to mitigate its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank risk management functions ensure that potential negative impact from concentration is identified in a timely manner, respective risks properly measured and evaluated, and, ultimately, responsive actions planned and realised. RAS sets overall limits on excessive credit risk, liquidity and market risk concentrations.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Actual exposure per borrower against limits is monitored on loans granted. The Credit Committee may initiate a change in the limits.

Where appropriate, the Bank obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

Credit–related commitments risks

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

Impairment assessment

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

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. In some cases, the Bank uses conservative approach to use outstanding exposure as EAD.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the 12 months' expected credit loss (12mECL), unless there has been significant increase in credit risk since origination or other impairment indicators were identified, in which case the ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

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

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit–impaired. The Bank records an allowance for the LGD.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit–adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit–impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near–default for individually significant exposures;
- The borrower requesting emergency funding from the Bank;
- The death of the borrower;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's Bank) filing for bankruptcy.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re–classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Bank's independent Credit Risk Department operates through the S&P rating models based on scorecards for the significant exposures. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker–dealers, exchanges and clearing–houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward–looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles;
- Any macro–economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

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

Consumer lending and residential mortgages

Homogenous retail loan Banks are modelled based on the most relevant macroeconomic variables. Subsequently, each individual product is assigned an individual macroeconomic scenario. Each retail product is assigned a minimum of 3 macroeconomic variables. Other key inputs into the models are GDP growth, unemployment rates, changes in personal income/salary levels, personal indebtedness, monetary policy rate, nominal effective exchange rate (NEE), CPI inflation and for residential mortgages, LTV ratios.

Exposure at default

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

Loss given default

For corporate lending assets, LGD values are assessed at semi–annually by account managers and reviewed and approved by the Bank's credit risk department.

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

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

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

Where appropriate, further recent data and forward–looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward–looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

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

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. This assessment involves analysis of various parameters including but not limited to deterioration of financial position and performance. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Banking financial assets measured on a collective basis

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

Asset classes where the Bank calculates ECL on an individual basis include:

- From Stage 3 assets, only individually significant risk exposures, regardless of the class of financial assets;
- Stage 2 and Stage 3 Corporate and SME loans with exposures per borrower exceeding ₾ 300 thousands;
- Individually significant risk exposures are evaluated for credit losses on individual basis. According to the Bank's methodology the minimum limit for individually significant risk exposures is ₾ 300 thousands;
- The exposures less than ₾ 300 thousands can be subject to individual assessment based on the Bank's management decision;
- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI).

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

- The smaller and more generic balances of the Bank's small business lending;
- All retail products.

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

Forward–looking information and multiple economic scenarios

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

- GDP growth;
- Unemployment rates;
- Monetary policy rate;
- Foreign exchange rates.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank obtains the forward–looking information published by the National Bank of Georgia. Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

In 2022 the Bank reviewed certain assumptions introduced in the past related to uncertainties caused by COVID19 outbreak. The Bank has changed weights of economic scenarios used in 2021, which were Upside 15%, Base Case 15%, Downside 70%, to Upside 30%, Base Case 30%, Downside 40% in 2022.

Key drivers	*ECL scenario*	*Assigned probabilities, %*	*2022*	*2023*	*2024*
Change in Country Sovereign Risk Premium*					
	Upside	25%	+1.4 pp	–0.5 pp	–0.5pp
	Base case	50%	+1.4 pp	–0.25 pp	–0.5pp
	Downside	25%	+1.4 pp	+1 pp	–0.5pp
GEL/USD Nominal Exchange Rate					
	Upside	25%	Unchanged	Appreciation 2%	Unchanged
	Base case	50%	Unchanged	Unchanged	Unchanged
	Downside	25%	Unchanged	Depreciation 15%	Appreciation 5%
Real GDP Growth (YoY)					
	Upside	25%	10.0%	6.0%	5.0%
	Base case	50%	10.0%	4.0%	5.5%
	Downside	25%	10.0%	2.0%	4.0%
Change in Unemployment rate					
	Upside	25%	–3.6 pp	–2.0 pp	+0.0pp
	Base case	50%	–3.6 pp	–1.0 pp	–0.25pp
	Downside	25%	–3.6 pp	+0.0 pp	+0.25pp
CPI Inflation (YoY)					
	Upside	25%	11.9%	5.0%	3.0%
	Base case	50%	11.9%	5.3%	3.1%
	Downside	25%	11.9%	9.0%	6.0%
Monetary Policy Rate (%)					
	Upside	25%	+0.0 pp	–2.5 pp	–1.5pp
	Base case	50%	+0.0 pp	–1.4 pp	–1.6pp
	Downside	25%	+0.0 pp	+2.5 pp	–3.0pp
Nominal Effective Exchange Rate (NEER)					
	Upside	25%	Unchanged	Appreciation 1.5%	Unchanged
	Base case	50%	Unchanged	Unchanged	Unchanged
	Downside	25%	Unchanged	Depreciation 10%	Appreciation 3%
Change in Real Estate Prices (expressed in Gel,YoY)	Upside	25%	7.5%	8.0%	5.5%
	Base case	50%	7.5%	7.0%	5.5%
	Downside	25%	7.5%	10.0%	8.0%

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan–related lines in the standalone statement of financial position, based on categories specified in the tables.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

As of 31 December 2022	*Note*		*High grade*	*Standard grade*	*Sub–standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	182,639	–	–	–	**182,639**
Amounts due from credit institutions	7	Stage 1	105,341	–	–	–	**105,341**
Loans to customers at amortised cost	8		2,342,920	43,352	9,095	31,056	**2,426,423**
		Stage 1	330,421	3,771	277	–	**334,469**
Loans to clients with regular inflows		Stage 2	433	238	557	–	**1,228**
		Stage 3	–	477	101	1,232	**1,810**
		POCI	–	–	–	–	**–**
		Stage 1	277,795	1,174	89	–	**279,058**
		Stage 2	7,296	464	1,509	–	**9,269**
Micro loans		Stage 3	–	1,614	108	6,177	**7,899**
		POCI	–	–	–	–	**–**
		Stage 1	525,962	9,297	244	–	**535,503**
		Stage 2	9,574	2,973	2,663	–	**15,210**
Consumer loans		Stage 3	–	1,604	405	14,843	**16,852**
		POCI	–	–	–	–	**–**
		Stage 1	199,938	716	–	–	**200,654**
		Stage 2	2,707	620	263	–	**3,590**
Residential mortgage loans		Stage 3	–	199	–	284	**483**
		POCI	–	–	–	–	**–**
		Stage 1	169,107	1,579	16	–	**170,702**
Gold Pawn loans		Stage 2	–	–	1,104	–	**1,104**
		Stage 3	–	–	–	2,124	**2,124**
		POCI	–	–	–	88	**88**
		Stage 1	773,781	15,966	–	–	**789,747**
		Stage 2	45,907	378	1,672	–	**47,957**
Corporate and SME loans		Stage 3	–	2,281	87	396	**2,764**
		POCI	–		–	5,912	**5,912**
Debt investment securities	9	Stage 1	369,481	–	–	–	**369,481**
Undrawn loan commitments	20	Stage 1	125,258	–	–	–	**125,258**
Financial guarantees	20	Stage 1	38,778	–	–	–	**38,778**
Total			**3,164,417**	**43,352**	**9,095**	**31,056**	**3,247,920**

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

As of 31 December 2021,	*Note*		*High grade*	*Standard grade*	*Sub–standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	**379,666**	**–**	**–**	**–**	**379,666**
Amounts due from credit institutions	7	Stage 1	**87,656**	**–**	**–**	**–**	**87,656**
Loans to customers at amortised cost	8		**1,828,394**	**18,494**	**8,140**	**24,693**	**1,879,721**
		Stage 1	349,172	2,218	92	–	**351,482**
Loans to clients with regular inflows		Stage 2	460	153	244	–	**857**
		Stage 3	–	51	97	1,955	**2,103**
		Stage 1	209,898	1,228	53	–	**211,179**
		Stage 2	14,721	265	930	–	**15,916**
Micro loans		Stage 3	–	95	159	7,868	**8,122**
		Stage 1	393,698	10,150	378	–	**404,226**
		Stage 2	7,054	1,953	3,383	–	**12,390**
Consumer loans		Stage 3	–	140	271	9,860	**10,271**
		Stage 1	155,726	387	–	–	**156,113**
		Stage 2	4,793	257	509	–	**5,559**
Residential mortgage loans		Stage 3	–	–	26	496	**522**
		Stage 1	139,879	999	36	–	**140,914**
Gold Pawn loans		Stage 2	–	–	558	–	**558**
		Stage 3	–	–	–	770	**770**
		Stage 1	458,846	598	–	–	**459,444**
		Stage 2	94,147	–	207	–	**94,354**
Corporate and SME loans		Stage 3	–	–	1,197	3,744	**4,941**
Debt investment securities	9	Stage 1	239,654	–	–	–	**239,654**
Undrawn loan commitments	20	Stage 1	121,888	–	–	–	**121,888**
Financial guarantees	20	Stage 1	17,293	–	–	–	**17,293**
Total			**2,674,551**	**18,494**	**8,140**	**24,693**	**2,725,878**

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 mostly performs well under the contract, it is classified as standard grade, while poor performance is considered sub–standard and breach of contract impaired.

(thousands of Georgian Lari)

25. Risk management (continued)

Credit risk (continued)

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

	2022				*2021*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	407,635	28,538	14,151	**450,324**	312,782	327,031	1,804	**641,617**
Amounts due from credit institutions	105,341	–	–	**105,341**	87,656	–	–	**87,656**
Loans to customers	2,426,423	–	–	**2,426,423**	1,879,721	–	–	**1,879,721**
Investment securities	315,933	53,548	–	**369,481**	239,654	–	–	**239,654**
Other assets	282,543	2,424	3,071	**288,038**	260,046	1,592	1,425	**263,063**
	3,537,875	**84,510**	**17,222**	**3,639,607**	**2,779,859**	**328,623**	**3,229**	**3,111,711**
Liabilities								
Amounts due to credit institutions	251,390	74,390	1,499	**327,279**	251,958	97,753	16	**349,727**
Amounts due to customers	2,400,899	107,802	180,972	**2,689,673**	2,110,168	75,451	48,049	**2,233,668**
Subordinated debt	67,900	19,935	10,939	**98,774**	77,275	23,761	11,424	**112,460**
Lease liability	28,741	–	–	**28,741**	35,897	–	–	**35,897**
Other liabilities	81,312	133	–	**81,445**	30,294	667	–	**30,961**
	2,830,242	**202,260**	**193,410**	**3,225,912**	**2,505,592**	**197,632**	**59,489**	**2,762,713**
Net assets/(liabilities)	**707,633**	**(117,750)**	**(176,188)**	**413,695**	**274,267**	**130,991**	**(56,260)**	**348,998**

Prepayment risk

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

The Bank monitors actual and expected loan prepayments or potential late repayment requests and takes necessary actions to prevent or minimize potential loss by taking best possible actions. The Bank proactively conducts negotiations to new potential borrowers to compensate the interest income shortage due to early repayment. Any extra liquidity is invested in interest earning assets based on the internal liquidity management practices.

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

	Effect on net interest income	*Effect on equity*
2022	(25,001)	(22,407)
2021	(21,942)	(18,520)

Liquidity risk and funding management

Liquidity risk management and supervision

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Other objectives include securing a balanced financing mix for the Bank's activities, compliance with standards set by the NBG, managing crisis situations and controlling the cost of funding.

(thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management (continued)

The main liquidity risk mitigation techniques are building liquidity reserves, diversifying funding sources and extending financing maturities. However, significant liquidity in excess of statutory requirements due to unexpected net cash inflows should be avoided and the Management Board should examine options to reduce liquidity to an appropriate level.

The Treasury Department is responsible for the management of the liquidity and funding risk within targets, boundaries and limits being set out in the RAS. The Treasury Department manages the liquidity risk on a centralised level and reports to the Management Board at least weekly. Key decisions on liquidity risk management and monitoring are taken by the ALCO. Input for analysis for ALCO purposes is presented by Treasury Department and ERM Division. ERM performs additional monthly stress–tests on liquidity position of the Bank and reports the results to the ALCO.

The Bank maintains a Recovery Plan which includes pressure on liquidity triggers and recovery plan strategy. Since the precise nature of any stress event cannot be known in advance, the plans are designed to be flexible to the nature and severity of the stress event and provide a menu of options that could be used as appropriate at the time. The liquidity triggers are monitored by Treasury Department and ERM Division on a daily basis. Any potential trigger event is escalated to the Management Board level and should be discussed at the ALCO meeting. Recovery Plan contains step–by–step actions, to generate additional liquidity in order to facilitate recovery in a severe stress, and is executed by the Head of Treasury Department under the supervision of ALCO and Management Board.

The Bank uses stress testing and scenario analysis to evaluate the impact of a sudden and severe stress events on its liquidity position. The scenarios cover the Bank–specific and market related risk events.

Statutory requirement

The liquidity coverage ratio (LCR) is calculated following Basel III framework. The NBG requires all banks to maintain the LCR of 75.0% in ₾, and LCR of 100.0% in foreign currency and total LCR of 100% on a daily basis. As of 31 December 2022, the Bank's total LCR stood at 111.8%, the LCR in ₾ was 103.8% and the LCR in foreign currency was 124.2% (31 December 2021: total LCR stood at 134.7%, the LCR in ₾ was 86.9% and the LCR in foreign currency was 205.9%).

The Bank holds a comfortable buffer on top of Net Stable Funding Ratio (NSFR) requirement of 100%, which came into effect on 1 September 2019. A solid buffer over NSFR provides stable funding sources over a longer time span. This approach is designed to ensure that the funding framework is sufficiently flexible to secure liquidity under a wide range of market conditions. NSFR as at 31 December 2022 was 130.1% (2021: 146.3%), all comfortably above the NBG's minimum regulatory requirements.

Analysis by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities as of 31 December 2022 and as of 31 December 2021 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.

(thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management (continued)

As of 31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Non–derivative financial liabilities					
Amounts due to credit institutions	257,122	11,775	59,382	5,060	**333,339**
Amounts due to customers	2,070,955	452,071	145,989	63,408	**2,732,423**
Lease liability	1,678	4,717	18,970	6,621	**31,986**
Subordinated debt	8,545	6,080	88,176	23,749	**126,550**
Total undiscounted financial liabilities	**2,338,300**	**474,643**	**312,517**	**98,838**	**3,224,298**
Derivative financial instruments – gross settled					
Positive fair value of derivatives					
(Inflow)	(9,619)	–	–	–	(9,619)
Outflow	9,626	–	–	–	**9,626**
Derivative financial instruments – gross settled					
Negative fair value of derivatives					
(Inflow)	(136,900)	(40,731)	(62,172)	–	**(239,803)**
Outflow	133,784	28,235	44,984	–	**207,003**

As of 31 December 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Non–derivative financial liabilities					
Amounts due to credit institutions	253,832	10,039	78,807	17,095	**359,773**
Amounts due to customers	1,543,669	466,105	267,507	56,045	**2,333,326**
Lease liability	2,188	6,224	21,700	10,054	**40,166**
Subordinated debt	2,861	7,248	107,826	30,244	**148,179**
Total undiscounted financial liabilities	**1,802,550**	**489,616**	**475,840**	**113,438**	**2,881,444**
Derivative financial instruments – gross settled					
Positive fair value of derivatives					
(Inflow)	(68,611)	–	–	–	(68,611)
Outflow	69,703	–	–	–	**69,703**
Derivative financial instruments – gross settled					
Negative fair value of derivatives					
(Inflow)	(107,509)	–	(93,784)	–	**(201,293)**
Outflow	107,213	–	105,144	–	**212,357**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2022	164,181	2,134	385	68	**166,768**
2021	139,629	4,306	873	122	**144,930**

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

(thousands of Georgian Lari)

25. Risk management (continued)

Liquidity risk and funding management (continued)

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. Table below shows the maturity analysis of the Bank's financial assets and liabilities according to when they are expected to be recovered or settled.

	2022			*2021*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	450,324	–	**450,324**	641,617	–	**641,617**
Amounts due from credit institutions	105,341	–	**105,341**	87,656	–	**87,656**
Loans to customers	1,040,872	1,385,551	**2,426,423**	758,127	1,121,594	**1,879,721**
Investment securities	177,009	192,472	**369,481**	53,082	186,572	**239,654**
Total	**1,773,546**	**1,578,023**	**3,351,569**	**1,540,482**	**1,308,166**	**2,848,648**
Amounts due to credit institutions	267,078	60,201	**327,279**	261,479	88,248	**349,727**
Amounts due to customers, of which:	1,455,294	1,234,379	**2,689,673**	1,045,637	1,188,031	**2,233,668**
Current accounts	375,851	1,033,065	**1,408,916**	375,875	915,851	**1,291,726**
Time deposits (including certificates of deposit)	1,079,443	201,314	**1,280,757**	669,762	272,180	**941,942**
Lease liability	275	28,466	**28,741**	1,179	34,718	**35,897**
Subordinated debt	394	98,380	**98,774**	445	112,015	**112,460**
Total	**1,723,041**	**1,421,426**	**3,144,467**	**1,308,740**	**1,423,012**	**2,731,752**
Net	**50,505**	**156,597**	**207,102**	**231,742**	**(114,846)**	**116,896**

The maturity of the assets is based on their carrying amounts and upon earliest legally exercisable maturity as of 31 December of the year concerned. The maturity of liabilities is based on the earliest contractual maturity or first call, except for the current accounts. The portion of current accounts is presented in more than one–year maturity range due to their stability. Time deposits (including certificates of deposit) 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 gap analysis 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.

As of 31 December 2022, total amounts due to customers amounted to ₾ 2,689,673 (as of 31 December 2021: ₾ 2,233,668), of which current accounts comprised ₾ 1,408,916 (as of 31 December 2021: ₾ 1,291,726). The Bank conducts the analysis of the stability of the current account balances for the period of the preceding two years on a daily basis. These balances have not fallen below ₾ 1,033,065 (2021: ₾ 915,851) for the respective periods of the preceding 24 months. As such, it is reasonable to present these funds in amounts due to customers in more than one–year maturity range in the above schedule. If the contractual maturities of amounts due to customers were considered, the cumulative liquidity gap within one year as of 31 December 2022 would have been negative ₾ 982,560 (31 December 2021: negative ₾ 684,109).

As of 31 December 2022, the Bank had sufficient liquid collateral to additionally draw down ₾ 140,838 (2021: ₾ 61,101) from the NBG at immediate notice.

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. Market risk arises mainly from trading activities. The Bank is not exposed to market risk related to trading activities, since the Bank, in line with its risk appetite, is not engaged in trading activities. 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.

(thousands of Georgian Lari)

25. Risk management (continued)

Market risk (continued)

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 standalone statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets held at 31 December 2022.

	2022		
Currency	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	100	5,501	(1,898)
USD	100	1,846	–
EUR	100	1,588	–

	2022		
Currency	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
GEL	100	(5,501)	1,984
USD	100	(1,846)	–
EUR	100	(1,588)	–

	2021	
Currency	Increase in basis points	Sensitivity of net interest income
GEL	100	3,163
USD	100	598
EUR	100	1,868

	2021	
Currency	Decrease in basis points	Sensitivity of net interest income
GEL	100	(3,163)
USD	100	(598)
EUR	100	(1,868)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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 20.0% of the Bank's total regulatory capital. As at 31 December 2022, the Bank maintained an aggregate open currency position of 4.3% of regulatory capital (31 December 2021: 10.9%).

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.

(thousands of Georgian Lari)

25. Risk management (continued)

Market risk (continued)

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;
- Minimising 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.

RAS sets limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by Treasury and ERM Division.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non–trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ₾, with all other variables held constant on the standalone statement of profit or loss (due to the fair value of currency sensitive non–trading monetary assets and liabilities). The effect on equity does not differ from the effect on the standalone statement of profit or loss. A negative amount in the table reflects a potential net reduction in standalone statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Appreciation/ (depreciation) of the exchange rate of ₾ against the respective currency in % 2022*	*Effect on profit before tax 2022*	*Appreciation/ (depreciation) of the exchange rate of ₾ against the respective currency in % 2021*	*Effect on profit before tax 2021*
US Dollar	25.90%	(1,972)	11.53%	(2,658)
EUR	29.52%	(2,429)	0.18%	(2,652)

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 has established the Operational Risk Management (ORM) framework and takes all possible steps to understand exposure of the business to the variety of operational risks arising from inadequate or failed internal processes, people and systems or from external events. The aim of the ORM framework is to enable the Bank to collect, assess, manage, and report operational risk efficiently and effectively.

The responsibilities of the Operational Risk Management Department, Department of Physical Security, Problem Loans and Court Disputes, Internal Audit and Business Owners within ORM framework are defined in the Operational Risk Management Policy.

(thousands of Georgian Lari)

25. Risk management (continued)

Operational risk (continued)

In general, the Bank has no appetite towards the operational risks and aims to reduce the losses resulting from risk events to the point where the Bank is not materially impacted by them. The Bank has low appetite towards operational risks related to fraud, information security (including IT) and compliance breaches, therefore the Bank makes all efforts to eliminate these types of risks, majority of cases are directed to law enforcement bodies.

The Risk Event Database (RED) is developed and maintained to ensure that all incidents, losses and near misses are evidenced and treated appropriately. It provides the Bank with a technical tool to systematically collect realized. This information is used to refine the identification of risks and the appropriate approaches to managing them. The collection of the data and a corresponding analysis is carried out by the Operational Risk Management Department in a centralized manner. Operational risk events from the RED database with material impacts, direct and indirect losses are reported to the Management Board.

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 of the Supervisory Board. The Bank actively uses corporate insurance to mitigate its operational risks.

26. Fair value disclosures

Fair value measurement procedures

External Appraisers are involved for valuation of significant assets, such as properties. Involvement of external Appraisers is decided upon annually by the management after discussion with and approval by the Bank's audit committee. The selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuators are normally rotated every three years. The management decides, after discussions with the Bank's external Appraisers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re–measured or re–assessed as per the Bank's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the Bank's external Valuators, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the management and the Bank's external Valuators present the valuation results to the audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in the valuations.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(thousands of Georgian Lari)

26. Fair value disclosures (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
At 31 December 2022	*Date of valuation*	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Assets measured at fair value					
Foreign exchange forwards and swaps	31 December 2022	–	7	–	**7**
Investment properties	31 December 2022	–	–	2,008	**2,008**
Property and equipment – buildings	31 December 2022	–	–	92,578	**92,578**
Investment securities	31 December 2022	–	66,870	–	**66,870**
		–	**66,877**	**94,586**	**161,463**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2022	–	450,324	–	**450,324**
Amounts due from credit institutions	31 December 2022	–	105,341	–	**105,341**
Loans to customers	31 December 2022	–	–	2,271,018	**2,271,018**
Investment securities	31 December 2022	–	306,336	–	**306,336**
		–	**862,001**	**2,271,018**	**3,133,019**
Liabilities measured at fair value					
Foreign exchange forwards and swaps	31 December 2022	–	30,251	–	**30,251**
		–	**30,251**	**–**	**30,251**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2022	–	325,096	–	**325,096**
Amounts due to customers	31 December 2022	–	2,693,704	–	**2,693,704**
Lease liability	31 December 2022	–	28,422	–	**28,422**
Subordinated debt	31 December 2022	–	99,421	–	**99,421**
		–	**3,146,643**	**–**	**3,146,643**

(thousands of Georgian Lari)

26. Fair value disclosures (continued)

Fair value hierarchy (continued)

At 31 December 2021	*Date of valuation*	*Fair value measurement using (Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Assets measured at fair value					
Foreign exchange forwards and swaps	31 December 2021	–	1,093	–	**1,093**
Investment properties	31 December 2021	–	–	3,491	**3,491**
Property and equipment – buildings	31 December 2021	–	–	91,000	**91,000**
		–	**1,093**	**94,491**	**95,584**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2021	–	641,617	–	**641,617**
Amounts due from credit institutions	31 December 2021	–	87,656	–	**87,656**
Loans to customers	31 December 2021	–	–	1,855,245	**1,855,245**
Investment securities	31 December 2021	–	239,821	–	**239,821**
		–	**969,094**	**1,855,245**	**2,824,339**
Liabilities measured at fair value					
Foreign exchange forwards and swaps	31 December 2021	–	9,844	–	**9,844**
		–	**9,844**	**–**	**9,844**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2021	–	346,049	–	**346,049**
Amounts due to customers	31 December 2021	–	2,221,173	–	**2,221,173**
Lease liability	31 December 2021	–	35,971	–	**35,971**
Subordinated debt	31 December 2021	–	113,319	–	**113,319**
		–	**2,716,512**	**–**	**2,716,512**

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the standalone statement of financial position and their fair value is materially different from their carrying amount. The table does not include the fair values of non–financial assets and non–financial liabilities.

	Carrying value 2022	*Fair value 2022*	*Unrecognised gain/(loss) 2022*	*Carrying value 2021*	*Fair value 2021*	*Unrecognised gain/(loss) 2021*
Financial assets and liabilities						
Loans to customers	2,426,423	2,271,018	(155,405)	1,879,721	1,855,245	(24,476)
Amounts due from credit institutions	105,341	105,341	–	87,656	87,656	–
Investment securities	369,481	373,206	3,725	239,654	239,821	167
Amounts due to credit institutions	327,279	325,096	2,183	349,727	346,049	3,678
Amounts due to customers	2,689,673	2,693,704	(4,031)	2,233,668	2,221,173	12,495
Lease liability	28,741	28,422	319	35,897	35,971	(74)
Subordinated debt	98,774	99,421	(647)	112,460	113,319	(859)
Total unrecognised change in unrealised fair value			**(153,856)**			**(9,069)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the standalone financial statements and those items that are not measured at fair value in the standalone statement of financial position but whose fair value are disclosed.

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short–term maturity (less than three months), as well as for floating rate instruments, the carrying amounts are assumed to approximate their fair value.

(thousands of Georgian Lari)

26. Fair value disclosures (continued)

Derivatives

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

Financial assets and financial liabilities carried at amortised cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date, as such they fall under Level 2 fair value hierarchy. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the NBG and credit institutions and other financial assets and liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Investment properties and buildings

There are three main approaches to valuation of real property:

Market approach

Establishes limits on the market value for the real estate by examining the prices commonly paid for properties that compete with the subject property for buyers. Sales are investigated to ensure that the parties to the transaction were adequately motivated. Sale prices reflecting motivation other than that of a typical market participant, i.e. transactions of special purchasers who are willing to pay a premium for a particular property, should be eliminated. The method involves analysing units of comparison such as a price per square metre of gross building area. Adjustments are made to the sales/listing for differences in location, size, age and condition, financing and various other factors which may have any influence on the value.

In the analysis of the market value of appraised properties by the sales comparison (market data) approach, it is utilised the sales/listing measured to the best available, most recent and overall similar sales/listing available as of the report date.

Information on the comparable sales and listing is obtained from brokerage companies, agents and brokers, as well as public information, including commercial broker listings on websites and published data. Then such information is further confirmed with owners and/or principles or brokers involved in the listed transactions.

Cost approach

Establishes the value of the real estate by estimating the cost of acquiring the land and building a new property or renovating an old property for equivalent utilisation purposes with no undue cost due to delay. An estimate of entrepreneurial incentive or developer's profit/loss is commonly added to the land and construction costs. For mature properties, the cost approach is used to estimate the depreciation cost, including items of physical deterioration and functional obsolescence.

The main approach of the cost replacement method reflects the idea that one will not pay for the given property more than he/she would pay for the construction of that property.

The cost approach involves the following steps:

- Estimate land value;
- Estimate reproduction or replacement cost of the improvements;
- Estimate accrued depreciation from all sources (physical deterioration, functional obsolescence, external and economic obsolescence);
- Deduct accrued depreciation from the reproduction or replacement cost to arrive at the depreciated improvement cost;
- Estimate equipment cost and deduct depreciation;
- Add the depreciated improvement cost to depreciated equipment cost and to the land value to arrive at a total property value indication.

(thousands of Georgian Lari)

26. Fair value disclosures (continued)

Investment properties and buildings (continued)

Income capitalisation approach

The income generation methodology is based on the hypothetical incomes generated through the use of the property being valued. The estimation of the real estate market value is based on the capitalisation coefficient which is calculated based on the long–term rate of the alternative investment methodology.

Discount cash flow (DCF)

The fair value of completed investment properties is determined using a discounted cash flow (DCF). Based on the actual and projected market demand, types of goods/services to be produced/provided, pricing policy and expected competitive environment in the market, the strategic financial projections for the business is developed. Using DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market–derived discount rate is applied to establish the present value of the cash inflows associated with the real property. The duration of the cash flow and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related lease up periods, re–letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property.

In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non–recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net cash inflows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of investment properties in Level 3 assets and liabilities which are recorded at fair value. For the reconciliation of property and equipment – buildings refer to *Note 11*:

	At 1 January 2022	***Sale of investment property***	***Total loss recorded in profit or loss***	***At 31 December 2022***
Assets				
Investment properties	3,491	(1,298)	(185)	2,008
	3,491	**(1,298)**	**(185)**	**2,008**

	At 1 January 2021	***Total gain recorded in profit or loss***	***At 31 December 2021***
Assets			
Investment properties	3,267	**224**	3,491
	3,267	**224**	**3,491**

The following table shows the quantitative information about significant unobservable inputs used in the fair value and income approach measurements categorised within Level 3 of the fair value hierarchy:

As of 31 December 2022	***Carrying amount***	***Valuation techniques***	***Unobservable input***	***Range per square meter***
Buildings – head office	53,499	Income Approach Approach (DCF)	10% increase/decrease of rent price 10% increase/decrease of discount rate	(10.10%) up to 9.60% (4.04%) up to 4.04%
Buildings	7,231	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(10.06%) up to 9.95%
Buildings	31,848	Income Approach	10% increase/decrease of rent price	(9.66%) up to 10.32%
Investment properties – office building	1,921	Income Approach	10% increase/decrease of rent price	(9.99)up to 9.99%
Investment properties – residential house	87	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(9.38%) up to 9.38%

(thousands of Georgian Lari)

26. Fair value disclosures (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

As of 31 December 2021	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Buildings – head office	50,302	Income Capitalisation Approach (DCF)	10% increase/decrease of rent price 10% increase/decrease of Occupancy rate	(10.00%) up to 10.00%
Buildings	40,698	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(5.46%) up to 15.54%
Investment properties – office building	2,113	Income Approach	10% increase/decrease of rent price 10% increase/decrease of Occupancy rate	(9.97%) up to 9.97% (12.02%) up to 12.02%
Investment properties – residential house	81	Market approach	Price volatility adjustment: 10% increase/decrease of market prices	(11.54%) up to 11.54%
Investment properties – commercial building	1,297	Cost approach	Price volatility/adjustment: 10% increase/decrease of land value 10% increase/decrease of replacement cost	(6.21%) up to 5.97% (3.82%) up to 3.82%

27. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances at the period end of and related income and expense arising from related party transactions are as follows:

	2022			*2021*		
	Shareholder	*Entities controlled by shareholders*	*Key management personnel*	*Shareholder*	*Entities controlled by shareholders*	*Key management personnel*
Loans outstanding at 1 January, gross	**7,635**	**7,382**	**897**	**–**	**10,573**	**491**
Loans issued during the year	7,390	100	67	15,498	10,038	622
Loan repayments during the year	(6,942)	(7,086)	(202)	(7,863)	(13,229)	(216)
Loans outstanding at 31 December, gross	**8,083**	**396**	**762**	**7,635**	**7,382**	**897**
Less: allowance for impairment at 31 December	(489)	(1)	(4)	(462)	(89)	(8)
Loans outstanding at 31 December, net	**7,594**	**395**	**758**	**7,173**	**7,293**	**889**
Unused credit lines	–	–	6	–	1,531	10
Interest income on loans	680	38	52	522	1,555	60
Deposits* at 1 January	–	**12,405**	**40**	**–**	**13,126**	**20**
Deposits received during the year	–	–	584	–	14	41
Deposits repaid during the year	–	–	(16)	–	–	(1)
Other movements**	–	(587)	(40)	–	(735)	(20)
Deposits at 31 December	–	**11,818**	**568**	**–**	**12,405**	**40**
Current accounts at 31 December	**275**	**7,548**	**115**	**71**	**31,756**	**2,500**
Interest expense on deposits and current accounts	1	823	16	3	1,346	40
Fee and commission income	2	16	2	81	689	3

* *Deposits include Time Deposits and CDs as well as Savings Account.*

** *Net gains/(losses) from foreign currencies.*

(thousands of Georgian Lari)

27. Related party disclosures (continued)

Entities under common control comprises of organisations in which shareholders of the Bank exercise control which represent related parties to the Bank.

The number of key management personnel during the year ended 31 December 2022 were 6 (2021: 10) and their compensation comprised the following:

	2022	*2021*
Salaries, bonuses and other short–term benefits	5,085	3,334
Total key personnel compensation	**5,085**	**3,334**

28. 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.

NBG Basel III Capital adequacy ratio

Starting from 30 June 2014, the Bank has to comply with minimum capital adequacy ratios stipulated by "Regulation on Capital Adequacy Requirements for Commercial Banks" approved under Decree # 100/04 (the "Pillar 1 Regulation") of the President of the NBG dated 23 October 2013.

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).

As of 31 December 2022, Pillar 1 minimum capital requirements on 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 Combined buffers and Pillar II requirements.

As of 31 December 2022, Systemic Risk buffer was 1.5%. This buffer has been revised and reduced to 1% in January 2023. Moreover, Capital Conservation buffer for 31 December 2022 was set at 0%, because of COVID–19 pandemic. It will increase to its original level – 2.5% for January 2024. Countercyclical buffers is set at 0.00%. Any adjustment of Pillar I and Combined 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.

To mitigate the negative impact of the COVID–19 pandemic of the financial sector and to promote the economy of the country, National Bank of Georgia lowered capital requirements for the commercial banks, which implied to postpone Capital Conservation buffer recovery (2.5% of the risk weighted assets) and recovery of CICR buffer – 2/3 of the currency induced credit risk buffer was cancelled up until 31 December 2022. In January 2023 calculation method of CICR buffer was changed and it was fully recovered. From January 2023, calculation method of CICR buffer is linked to dollarization of credit instruments.

Furthermore, the phase–in of additional Credit portfolio concentration risk buffer (HHI) and Net Grape buffer requirements on Common Equity CET 1 and Tier 1 Capital (30% and 40%, respectively), planned at the end of March 2020, were postponed by one year. The phase–in of additional Credit portfolio concentration risk buffer (HHI) and Net Grape buffer requirements on Common Equity CET 1 and Tier 1 Capital became 45% and 60%, respectively at the end of March 2022 and it will become 56% and 75% for CET 1 and Tier 1, respectively, for the end of March 2023.

(thousands of Georgian Lari)

28. Capital management (continued)

NBG Basel III Capital adequacy ratio (continued)

On 29 December 2022 (Decree N198/04) NBG published and approved amendments in Rule on "Additional Capital Buffer Requirements for Commercial Banks" within Pillar 2 (Decree N176/04), according to this rule, from January 1, 2023, Georgian banking sector would be transmitted to the International Financial Reporting Standards (IFRS). According to the stated principle of the National Bank of Georgia, when transitioning to IFRS, other things being equal, a neutral approach to the cost of regulatory capital would be maintained on constant level.
The capital adequacy framework would be amended for this purpose. A credit risk adjustment (CRA) buffer would be added to the Regulation on Determining Capital Buffers for Commercial Banks within Pillar 2. The purpose of establishing a credit risk adjustment buffer is to reduce the credit risk caused by insufficient expected credit losses set up for assets, and to determine an adequate capital buffer.

As a result of lowered capital requirements, As of 31 December 2022, under total Basel III requirements the Bank was required to maintain a minimum Total Capital adequacy ratio of 13.37% of the risk–weighted exposures (RWE), minimum Tier 1 Capital adequacy ratio of 9.43% of the RWE and Common Equity Tier 1 Capital adequacy ratio of 8.01% of the RWE computed based on the Bank's stand–alone financial statements prepared in accordance with the NBG requirements. While, as of 31 December 2022, Total Capital adequacy ratio, Tier 1 Capital adequacy ratio and Common Equity Tier 1 Capital adequacy ratios actually were 14.17%, 11.09% and 10.92%, respectively.

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

	2022	*2021*
Common Equity Tier 1 capital	**304,656**	**239,972**
Additional Tier 1 capital	4,565	4,565
Tier 1 capital	**309,221**	**244,537**
Tier 2 capital	86,034	97,705
Total regulatory capital	**395,255**	**342,242**
Risk–weighted exposures	**2,789,371**	**2,319,960**
Common Equity Tier 1 capital ratio	10.92%	10.34%
Tier 1 capital ratio	11.09%	10.54%
Total regulatory capital ratio	14.17%	14.75%